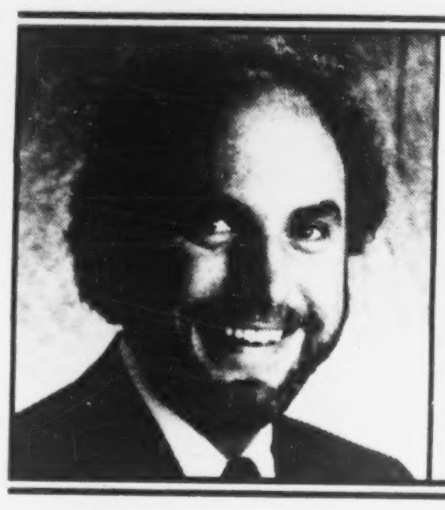
EDITORIAL

Talk of Discount Trends Hotter Than Ever

Frankly, I thought the word trend was now taboo. I thought the word trend, or any derivative, such as trendsetter, on-trend, or trendmeister was no longer the lingo of the learned. I thought everyone was tired of being trendy or talking about trends.

Not! Apparently. More readers than ever are asking about trends. In fact, the question I am most often asked is, "What are the trends in the industry?"

So, let's talk trends, or "current customs," as Roget's offers. Its a particularly appropriate time, as *DSN* has just released its State of the Industry report—the most comprehensive analysis of discount retail segments and rankings of top chains in the U.S., Mexico and Canada.



TONY LISANTI
Editor

- Warehouse club of the future. While wholesale clubs slug it out for market share in the Northeast, Price Club last month entered a new market with a new prototype. The new Price Club in Dallas, at over 150,000 sq. ft., gives us an idea of how this no-frills warehouse look, which it pioneered 15 years ago, will change. It's more organized, better merchandised. And even more attention will be given to design, layout and merchandising as clubs become more consumer-focused.
- Niche lifestyle concepts or "theme stores." The ability to organize and design a specialty store around a specific theme—for example, home, health, safety or entertainment—will continue to grow and attract customers. While it's fun and exciting to shop, this type of store offers product expertise and advice as well as value. Among some of the hot chains are Safety Zone, Michael's Stores and Lechter's.
- Outlet stores. Value is the driving factor for the '90s consumer. And these stores, whether a manufacturer outlet or a designer brand driven store, will offer consumers the fashion and hot products they demand at prices lower than the traditional department and specialty stores.
- Dollar closeouters. One executive called this concept the "value variety store of the '90s." Key players include Everything's a $1.00, Dollar Tree and All For a Dollar. (See *DSN*, July 6, 1992).
- Surplus stores. If you can't sell it in your regular store, why not sell it elsewhere. Obviously, it's working. Sears, Wal-Mart, JCPenney, and Neiman-Marcus operate surplus stores and this concept will continue to grow in the value decade.
- Dollar Discounters. Chains like Dollar General and Family Dollar will continue to expand the number of stores and product assortment as they fill the void in the market at the lower income level abandoned by traditional discounters.
- Hard lines discount stores. Several chains in other segments of retailing, particularly home center and deep discount drug, are altering product assortment and evolving into discount stores specializing in hard lines categories. For example, F&M calls itself a hard lines discounter and Phar-Mor describes itself as a "deep discount store."
- Family apparel discount stores. The traditional discount department store will evolve into a value-driven family fashion superstore with apparel and home fashions as key categories, sprinkled with convenience and commodity products from major hard lines categories.
- Supercenters. For some discount department stores, it's a way of sustaining and hopefully boosting customer traffic and becoming a one-stop shopping destination. On the other hand, it's a way for supermarket chains to expand into more profitable basics in apparel and hard lines.

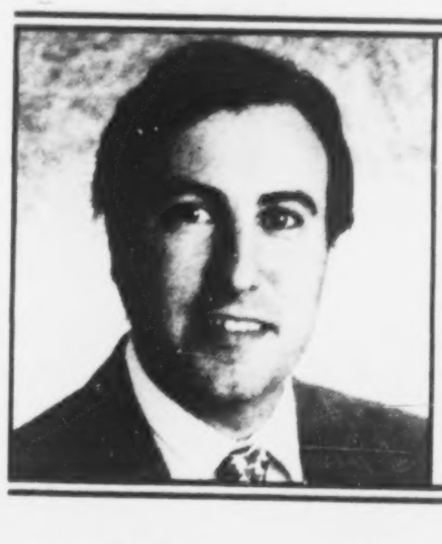
Have I dispelled conventional wisdom? As dominant as Wal-Mart is, there are other stars, other hot concepts, other newsmakers shaping the future of discounting.

BUYERS & SELLERS

Uncovering Reliable Data and Reader Mail

Last issue, I described the enormous amount of effort and research that goes into preparing *DSN's* Annual Report on the Discount Industry: Part 1.

Compiling the merchandise data for Part 2, which appears in this issue, is equally daunting. Just as in Part 1, questionnaires are faxed to executives at the top discount retailers. However, instead of going to chief executives and financial officers for sales and earnings information, Part 2 questionnaires go to merchandising executives for product category specific information. That data, along with information from numerous other outside sources—including manufacturer trade associations and other research firms like A.C. Nielson and NPD Group—is analyzed by *DSN's* editorial team, resulting in the category sales breakouts that are presented in this issue.



DON LONGO
Exec Editor

I was remiss last issue in not acknowledging *DSN's* senior editor Laura Liebeck for the outstanding job she performed in supervising the collection of information that resulted in *DSN's* Top 175 Discount Retailers chart. In expanding the list from 150 chains to 175 this year, Laura noted that she actually found discounters that she didn't know about. "I was able to get information on chains like Smart & Final, Bud's, Playtogs, Goldblatt's, Hi/Lo Automotives and Pic 'N Save, which I discovered while on a field trip to Jacksonville, Fla."

An equally impressive job was turned in by senior editor Mary Ellen Kelly, who supervised the compilation of merchandising data from myriad sources for this issue. Mary Ellen, who earned a promotion to senior editor earlier this year, has been with *DSN* for nearly eight years. "I was pleasantly surprised at the willingness of industry executives to supply proprietary, sensitive information on the strengths and weaknesses of their chains," said Mary Ellen. That willingness, we feel, is the reason why this year's merchandising analysis is the most accurate and reliable data available in the discount industry.

You can say one thing about discount industry executives: they are not reluctant to venture an opinion about something when they're asked to do so. In a recent column, I commented on the ridiculous mangling of the English language by proponents of politically correct speech. I closed the column with a request that readers send me their verbally kinder names for certain, shall we say, not PC chains. Here are some of the replies:

"Great editorial on political correctness. When we were developing the new name and retail identity for Pep Boys two years ago, no one seemed to be concerned with political correctness. Had they read your article at that time, we may have renamed the chain Pep People."

—Elinor Selame, president, Brand Equity, Newton, Mass.

"How about Pep Boys: Energized Pre/Just Post Pubescent Shoppe. Casual Male: I'll Give You A Call. Lionel Kiddie City: Animal Pre-pubescent Megalopolis. Oshman's: Asexual Osh Outlet. Some daze are like this!"

—Susan Brandt, Hobby Industries of America, Elmwood Park, N.J.

And, finally, a letter on a different topic: My three-and-a-half star review of this year's IMRA show:

"As chairman of the International Mass Retail Association, I would like to thank you for your 3½-star rating of the 1992 IMRA Annual Convention as reflected in your editorial of June 15th in *DSN*.

"More importantly, I'd like to tell you of my appreciation for your critique and especially the credit you gave to the IMRA staff. Clearly a convention program and all the attendant support pieces do not just come together automatically. Board members and staff work diligently to bring it about. Your editorial and rating will go a long way in helping us achieve a 4-star evaluation one day."

—Warren White, executive vice president, general manager, Clover, Philadelphia.

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New SEC Rule Set to Clarify Exec Rewards

WASHINGTON — The Securities and Exchange Commission's proposed rules clarifying the reporting of executive compensation isn't expected to result in most discounters and other retailers making immediate major changes in how they reward top officers.

The new rules, which the SEC is due to vote on in the fall, are expected to show that retailers' compensation, in general, follows the practice of most American businesses, trade observers said. Executives at some of the more profitable chains, in fact, may be underpaid when their salaries, benefits and stock options are compared to that offered by leading manufacturering and service companies with similar sales and profits.

Besides the proposed compensation regulations, the SEC also plans to liberalize its rules governing oral communications among shareholders that would provide for more open discussion prior to proxy voting. Dissident shareholders would be allowed to talk about their voting plans and if these groups together hold under 5% of a company's stock they wouldn't need to make any filing with the SEC.

The SEC is accepting public comments on its proposed rules through the summer and plans to vote on the regulations in the fall.

Bills mirroring the thrust of the SEC's proposals were introduced in the Senate and House of Representatives last year. Future action on these measures is dependent on what happens to the SEC proposals.

The package of SEC rules, if adopted, could intensify growing shareholder disquiet with compensation paid to executives that seem to have no relationship to a companies performance, particularly with officers' salaries and stock options increasing while revenues and stock dividends fall.

Shareholder groups and investment funds like the United Shareholders Association, Institutional Shareholder Services, and the California Public Employees' Retirement Fund have been in the forefront of efforts to make companies more responsive to shareholders and to have executive compension reflect a business' actual performance.

Sears, so far, has been the only retailer subject to dissident shareholder activity (see *DSN*, June 1, page 3). But detailed disclosure of executive compensation could trigger stockholder reactions at a number of retailers when the relationship of salaries and benefits to sales and earnings for these companies are compared to that of other chains, especially industry leaders like Wal-Mart, Kmart, Price and Costco.

Compensation for executives at these four retailers were lower than for officers at many other chains, and the level of their compensation was less when measured as a percentage of operating income com-

(Continued on page 45)

Salaries of Top Execs in Publicly Held Discount Retailers

Executive	Title/Company	1991 Compensation (In Thousands*)
Charles Lazarus	Chmn.; CEO: Toys "R" Us Inc.	5,529.3
Stephen L. Pistner	Chmn.; CEO: Ames Department Stores Inc.	1,598.5
Joseph E. Antonini	Chmn.; CEO; Pres.: Kmart Corp.	1,545.8
Richard L. Sharp	Pres.; CEO: Circuit City Stores Inc.	1,221.2
William G. Kelley	Chmn.; CEO; Pres.: Consolidated Stores Corp.	1,090.0
Samuel J. Gerson	Chmn.; CEO: Filene's Basement Corp.	1,000.0
Edward A. Brennan	Chmn.; CEO; Pres.: Sears, Roebuck and Co.	979.8
Mone Anathan, III	Pres.: Filene's Basement Corp.	974.2
J.R. Hyde, III	Chmn.; CEO: AutoZone Inc.	958.5
Leon Levine	Chmn.; CEO: Family Dollar Stores Inc.	936.0
Michael Bozic	CEO; Pres.: Hills Department Stores Inc.	922.4
Bernard Cammarata	CEO; Pres.: TJX Companies Inc.	868.3
Don R. Clark	Chmn.; CEO: Caldor Corp.	820.3
Leonard S. Williams	CEO; Pres.: Pic 'N Save Corp.	817.6
Julian M. Seeherman	Chmn.; CEO: Venture Stores Inc.	808.9
Mark D. Begelman	CEO; Pres.: Office Depot Inc.	789.3
David D. Glass	CEO; Pres.: Wal-Mart Stores Inc.	770.0
Walter E. Bruckart	Exec VP: Circuit City Stores Inc.	754.9
Raymond Zimmerman	Chmn.; CEO; Pres.: Service Merchandise Co. Inc.	754.6
Robert C. Nakasone	Vice Chmn.; Pres: WW Toy Stores/Toys "R" Us	753.2
Robert J. Ulrich	Chmn.; CEO: Target	752.0
Marc I. Balmuth	Pres.: Caldor Corp.	736.3
Michael Goldstein	Vice Chmn.; CFO: Toys "R" Us	722.8
Peter R. Formanek	Pres.: AutoZone Inc.	720.9
David I. Fuente	Chmn.; CEO: Office Depot Inc.	717.1
Richard Lesser	Exec VP: TJX	710.7
Richard S. Miller	Exec VP US Stores: Kmart	695.7
Donald G. Soderquist	Vice Chmn.; COO: Wal-Mart	650.0
Joseph R. Thomas	Exec VP Intl. & Admin.: Kmart	640.0
Sy Syms	Chmn.; CEO: Syms Corp.	637.0
C. Clayton Burkstrand	Chmn.; CEO: Pamida Holdings Corp.	635.5
Herbert J. Zarkin	Exec VP: BJ's Wholesale Club	634.5
Philip G. Otto	Pres.: Venture Stores Inc.	621.3
Ronald A. Unkefer	Chmn.; CEO: Good Guys Inc.	600.0
Mitchell G. Leibovitz	CEO; Pres.: Pep Boys	596.2
Drayton McLane Jr.	Vice Chmn.; Wal-Mart/Pres., CEO.: McLane Co.	585.9
A.L. Johnson	Vice Chmn.; CEO: Sam's Clubs/Wal-Mart	575.0
Herbert Fisher	Chmn.; CEO: Jamesway Corp.	559.0
Robert A. Gunst	Pres.: Good Guys Inc.	550.0
John A. Fitzsimmons	Senior VP: Circuit City Stores Inc.	544.9
Roy M. Speer	Chmn.; CEO: Home Shopping Network Inc.	500.0
Frederick M. Stevens[1]	Chmn.; CEO: Fred Meyer Inc.	460.9
William R. Fields	Exec VP Merch & Sales: Wal-Mart	460.0
Robin L. Farkas	Chmn.: Alexander's Inc.	450.5
George A. Iacono	Pres.: Value City Dept. Stores Inc.	450.0
Leonard Luria	CEO, Treasurer.: L. Luria & Son, Inc.	450.0
Richard M. Schulze	Chmn.; CEO: Best Buy Co. Inc.	447.0
Frank R. Schlosser	Pres.: Pamida Holdings Corp.	440.5
Roger V. Goddu	Exec VP; GMM USA Toy Stores: Toys "R" Us	437.0
James D.Sinegal	CEO, Pres.: Costco Wholesale Corp.	418.1
Jeffrey H. Brotman	Chmn.: Costco Wholesale Corp.	416.0
Cal Turner Jr.	Chmn., Pres., CEO: Dollar General Corp.	405.2
Thomas G. Stemberg	Chmn.; CEO: Staples Inc.	395.7
Henry J. Nasella	Pres.: Staples Inc.	379.0
Monroe G. Milstein	CEO, Pres.: Burlington Coat Factory	375.4
George L. Jones[2]	CEO; Pres.: Rose's Stores Inc.	355.4
Alvin N. Lubetkin	CEO, Pres.: Oshman's Sport Goods Inc.	352.2
Dennis B. Johnson[3]	Pres.: Brendles Inc.	315.0
Peter J. Hayes	Pres.: Family Dollar Stores Inc.	312.3
Bradbury H. Anderson	Pres.: Best Buy Co. Inc.	311.0
Joseph M. Segel	Chmn.; CEO: QVC Network Inc.	307.5
Cyril K. Green	Pres.: Fred Meyer Inc.	305.8
Benjamin Strauss	Chmn.: Pep Boys	289.4
Dale P. Kramer	CEO; Pres.: ShopKo Stores Inc.	282.8
Lucius H. Harvin, III	Chmn.: Rose's Stores Inc.	275.0
Robert E. Price	CEO: Price Co.	270.0
Sumner L. Feldberg	Chmn.: TJX Companies Inc.	269.2
Ira Mondry	Pres.; CEO: Highland Superstores Inc.	263.2
Theodore Wallace	Exec VP; COO East Coast: Price Co.	252.4
Douglas D. Brendle	Chmn.; CEO: Brendles Inc.	250.0

* Compensation includes salary and bonuses/incentives and, depending on the retailer, such other payments as profit plan contribution, life insurance, auto expenses, financial planning and other perks, with specific salary and bonus/incentive amounts, where available, as indicated; stock options and cash payments under stock bonus plans are excluded.

[1] Frederick M. Stevens resigned from his post effective 1/25/91.

[2] George L. Jones started employment with Rose's Stores in July 1991.

[3] Dennis Johnson resigned on 1/17/92 and received $115,000 payment with his departure from Brendles in January 1992.

Source: Nordby International, Inc.

SEC Tries to Clarify Compensation Rules

(Continued from page 41)

pared to other merchants.

The SEC's proposed regulations would require companies to provide a "clear and concise presentation of compensation paid or awarded to executive officers, and the directors' bases for making such compensation decisions."

The proposal calls for presenting the stark compensation figures now reported in the proxy statement for the annual meeting into about a dozen more easily understood charts and graphs, with notes offering still more explanations.

One nine-column chart would detail all the compensation—salaries, bonuses, stock options, restricted stock and other benefits—paid to the top executive and the next four highest paid officers. The options, furthermore, would be tracked in another chart that would list the value of these options based on stocks increasing in value by 50%, 100% or 200%.

The compensation information would also include the specific factors used by directors in determining pay packages and the relationship of the compensation's overall value to the company's performance.

The compensation package can be measured against the company's stock using a graph that plots the stock's value over a five-year period as compared with the performance of similar companies and the Standard & Poor's 500 stock index.

Business groups, including the Business Roundtable which is composed of top executives, have opposed past SEC plans to change its current compensation and communications regulations.

Business groups have focused their key objection to the changes in the oral communication rules. This groups' biggest fear is that dissident shareholders could set up a phone network among large investors and thereby bypass SEC rules requiring written disclosure of voting plans.

The SEC plans to retain its requirement that written shareholder material be filed with the agency within 10 days of any mailing. This would enable a company's management to examine the material and send out its response.

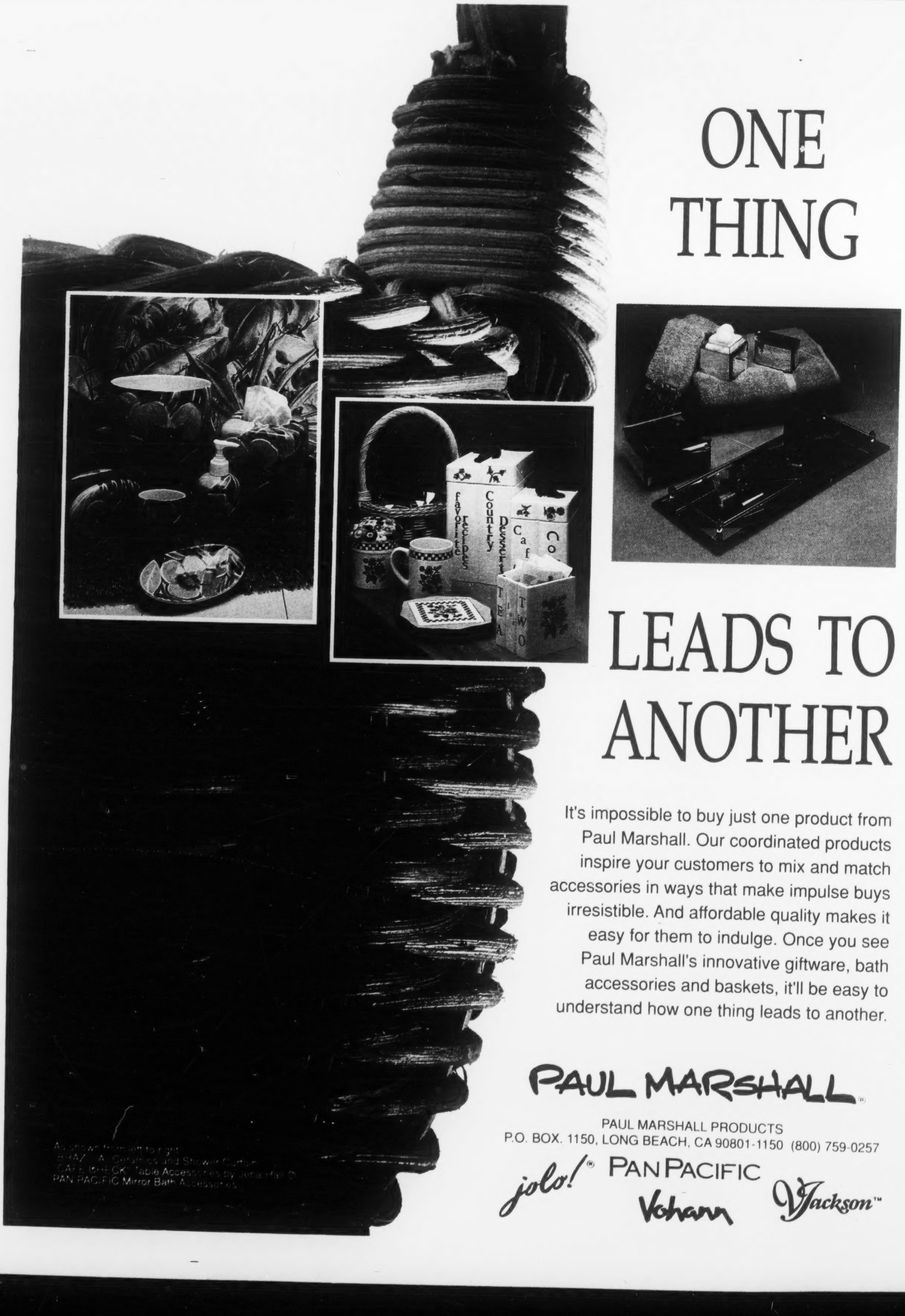
Business groups opposed the changes in the communication rules because freer, more open discussion among dissident shareholders could enable these stockholders to design tactics that could result in the defeat of directors and the takeover of a board.

However, they are not as vociferous in opposing the compensation revisions because stockholder anger about the compensation paid to executives, in itself, doesn't lead to the overthrow of a board—it still needs discussions, planning and concrete action.

No 1: Charles Lazarus
Toys "R" Us
$5,529,300

No. 2: Stephen L. Pistner
Ames Department Stores
$1,598,500

No. 3: Joseph Antonini
Kmart Corp.
$1,545,800



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Discount Store News.
THE INTERNATIONAL NEWSPAPER OF DISCOUNT RETAILING

ANNUAL REPORT 92

P·A·R·T · 2

Apparel, electronics and health & beauty care will be the leading sales volume categories at discount stores this year. See inside for DSN's annual breakout of departmental sales for the $175 billion discount industry.

TSC
FARM·HOME·AUTO

food merchandising®

FOR NON-FOOD RETAILERS

A special supplement to *Discount Store News* and *Drug Store News*

Summer 1992

Page 18

How Non-Food Retailers Are Beating Supermarkets

Cover Story: Consumers Prefer Alternative Formats Page 6

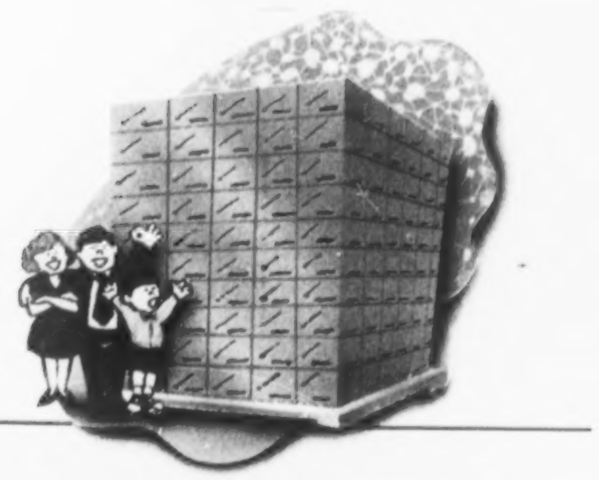
Seasonal Candy Fuels Drug Stores Holiday Sales

Page 18

COVER STORY

New Formats Turn Up Heat

Clubs, Discounters Have Unique Appeal



Longterm, discount combination stores such as Wal-Mart SuperCenters and Super Kmart Centers were recognized as 'the greatest threat of all.'

Wholesale clubs and the food operations of discount and drug stores have become increasingly formidable competitors to supermarkets, triggering explosive changes in the overall food retailing industry.

Faced with this competition, supermarkets have focused on one explanation for the growing success of alternative food store formats: they have contended that the key reason that alternative food store formats offer lower prices than traditional grocery retailers is that the clubs, discount store supercenters and deep discount drug stores receive better prices, terms and deals from manufacturers.

This analysis, by itself, is a major misconception. And this perceived price differential between merchandise offered to conventional food retailers and alternative food store formats has generated the biggest controversy and antagonism between supermarkets and manufacturers.

Alternative Store Formats, a landmark 130-page study of the marketing challenge facing supermarkets produced by the Food Marketing Institute and three consulting firms, reported that the specific merchandising and operating systems of these alternative food merchants played the key role in keeping their costs low—and resulted in lower prices. These merchants also delivered unique benefits to shoppers that were responsible for their mushrooming appeal.

The study also found that there were some price differences for merchandise sold to alternative food merchants compared to supermarkets, but that these differences related to the merchandising operations of the clubs, combination stores and deep discount drug stores.

The institutional sizes merchandised by clubs, for example, cost less per measure than the average size sold by supermarkets. The study explained that "this difference is a result of the convention among manufacturers to price larger sizes at lower costs per measure to communicate value, and build market share by encouraging larger purchases." Deep discount drug stores, meanwhile, gain lower prices "through their heavy deal and closeout buying practices [although they pay the penalty in the form of lower turns and higher working capital]," the study noted.

Opinion Research Corp. developed the consumer research information, McKinsey & Co. detailed the economic nature of the competition and William Bishop Consulting suggested possible supermarket responses.

The study, officially presented at the FMI's annual convention in May in Chicago, detailed the attraction of alternative store formats to consumers and these merchants' impact on supermarkets.

The study's main focus was on membership warehouses, as clubs are currently viewed as supermarkets' most dynamic competitors. But over time, clubs' appeal is expected to decline as traditional supermarkets and other food retailers offer merchandise in large and institutional sizes and at lower prices.

Longterm, discount combination stores such as Wal-Mart SuperCenters and Super Kmart Centers

Retail observers have called the no-frills membership warehouse clubs the 'most dynamic retail channel of the '90s.'

Costco's growth in fresh baked goods, produce and meats is earning it a reputation as one of the best food merchants.

were recognized as "the greatest threat of all," as they could be shopped by all consumers, not just individuals who first have to become a member of a wholesale club to buy there. The combo stores' greater food assortment, compared to clubs' offerings, along with their full-line general merchandise mix, enhanced their appeal to consumers.

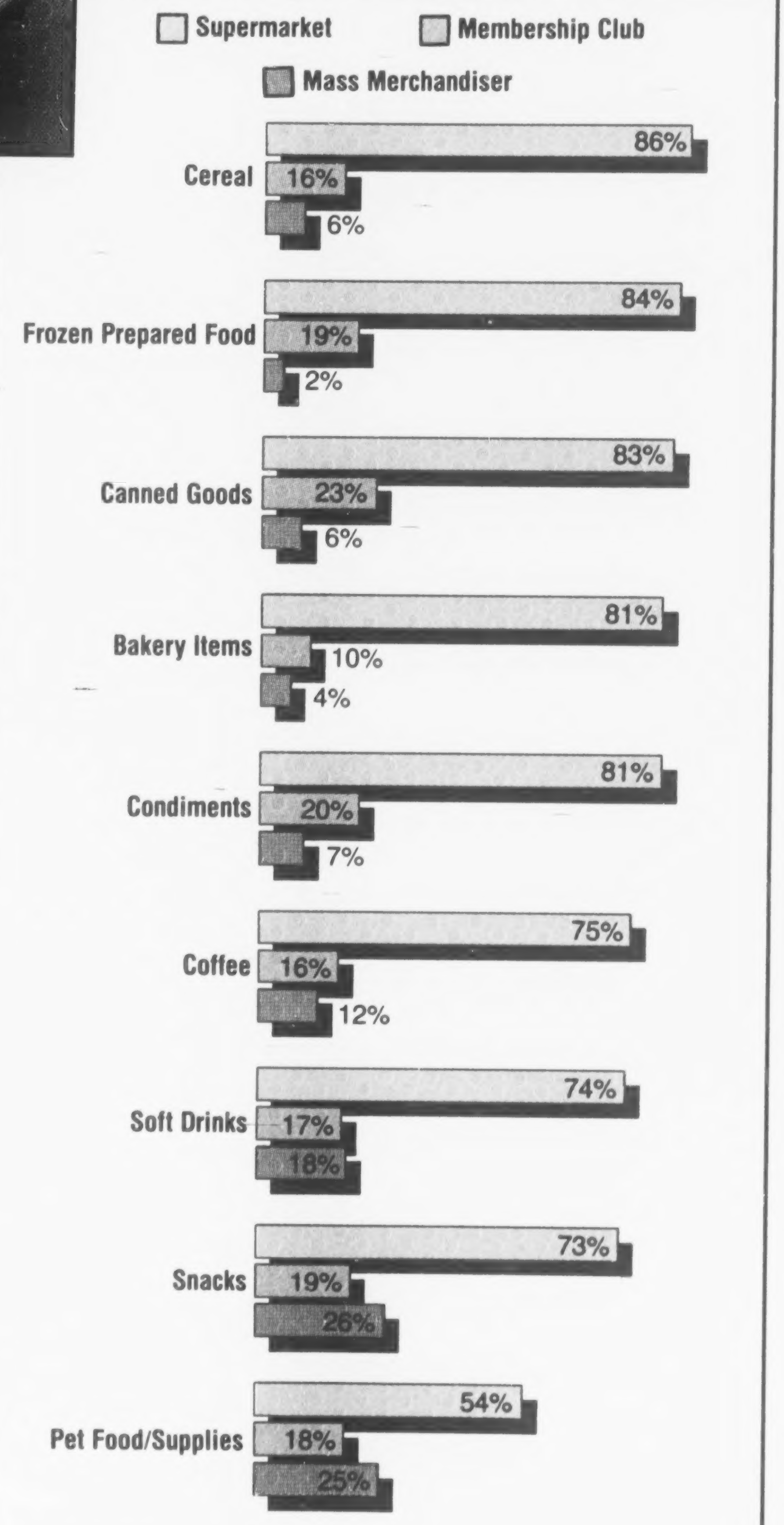
The shopping analysis by Opinion Research Corp. and William Bishop Consulting noted that consumers shopped the three alternative store formats for different reasons that go directly to their targeted marketing concepts. McKinsey & Co.'s analysis of the economics of alternative store formats detailed the operational business "secrets" of these food merchants that allow them to undersell supermarkets for most products.

Clubs are shopped for "stock-up needs," the purchase of large and institutional sizes of consumables at very low prices that enable consumers to cut back on the overall time they expend buying basic groceries. Combination stores are shopped for price, both everyday low tickets and sales and specials, and, to a lesser degree, the availability of general merchandise. The deep discount drug store appeal is primarily the low prices of in-and-out special buys.

The economic analysis noted that clubs and combination stores use efficient business systems designed to reduce expenses and that they result in operational costs substantially under that of supermarkets. Clubs' operating expenses are 7.5% of sales, combination stores' are 17.5% and deep discount drug stores' are 16% as against supermarkets' 21.8%

McKinsey said in its analysis of the clubs that "our national market➤

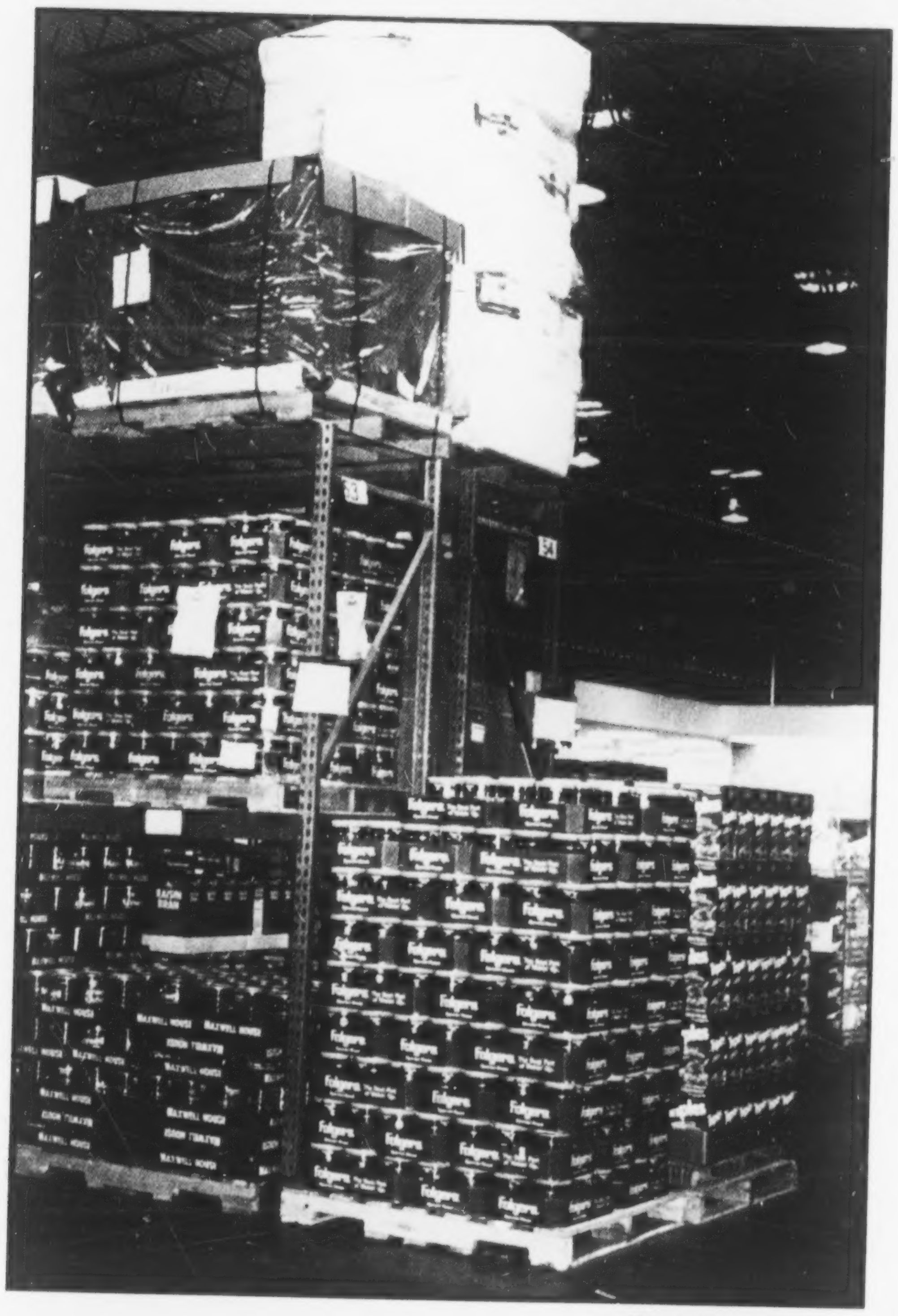
Where Alternative Format Shoppers Buy Specific Items



Multiple responses accepted.
Stores where each item purchased asked only of those who buy that item.
Base varies from item to item.

Source: FMI

Discount drug stores like Phar-Mor generate about 15% of their total volume from consumables.



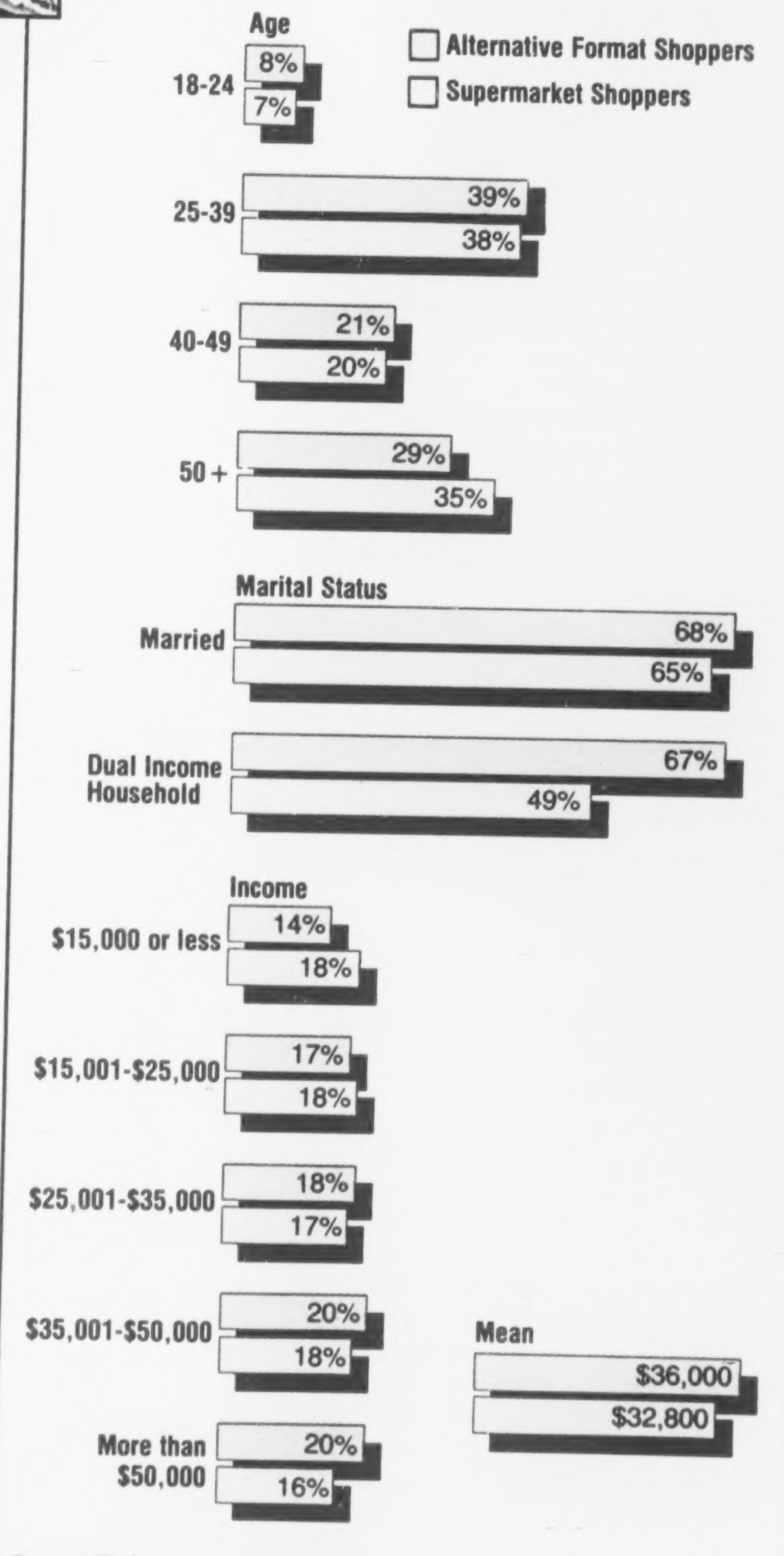
Distribution advantages enjoyed by clubs allow them to operate on razor thin gross margins of between 8% and 9%.

basket comparison of grocery-related items . . . showed that club prices (per ounce or other measure) average 26% lower than grocery prices. Approximately 16 points of this difference can be explained by the combination of operating efficiency and revenues earned from membership fees."

Turning to combination stores,

(Continued on page 22)

Demographics of Alternative Format Shoppers vs. Supermarket Shoppers



Source: FMI

Eating Into Food Sales

Alternative Formats Make Inroads in Convenience Items

By Laurie Freeman

Discounters—mass merchandisers and warehouse club stores—have emerged as formidable competitors in the food and grocery business, particularly in the convenience food area, according to exclusive research conducted by Leo J. Shapiro & Associates for *Food Merchandising*.

These places where economy-minded shoppers go to purchase everything from bread to cereal have attracted shoppers in nearly six out of every 10 (58%) households in the United States. The warehouse club is the most successful grocery retailer of the non-traditional or alternative format outlets, with 45% of those people questioned saying that they shop for food at clubs; discount department stores ranked second, with 38% of shoppers saying they bought food there, and drug store chains follow with 32% of shoppers.

Overall, the data indicates consumers are much more willing today to make their convenience food purchases outside the supermarket.

From the research, a picture emerges of discount department store and warehouse club formats becoming an increasingly important source for prepared convenience foods. Just over half of U.S. households, 53%, have purchased at least one convenience food item from an alternative format outlet in the past year. The products that shoppers are most likely to buy at a club, discount or drug store are coffee, with 28%; frozen foods, 28%; and spices, 24%.

Frozen Food Sales Strongest at Clubs

% Purchased in Past Year at . . .

	Any Non-Food Merchandiser	Warehouse Club	Discount Dept. Store	Drug Store	Median Dollar Store
Coffee	28%	13%	7%	7%	$ 40
Spices	24	9	7	6	20
Frozen Foods	28	18	5	2	150
Microwaveable Prepared Foods	20	9	6	2	100
Lunch Box Items	18	9	6	5	75

Percentages based on all respondents

Source: Leo J. Shapiro & Assoc. for **FM**

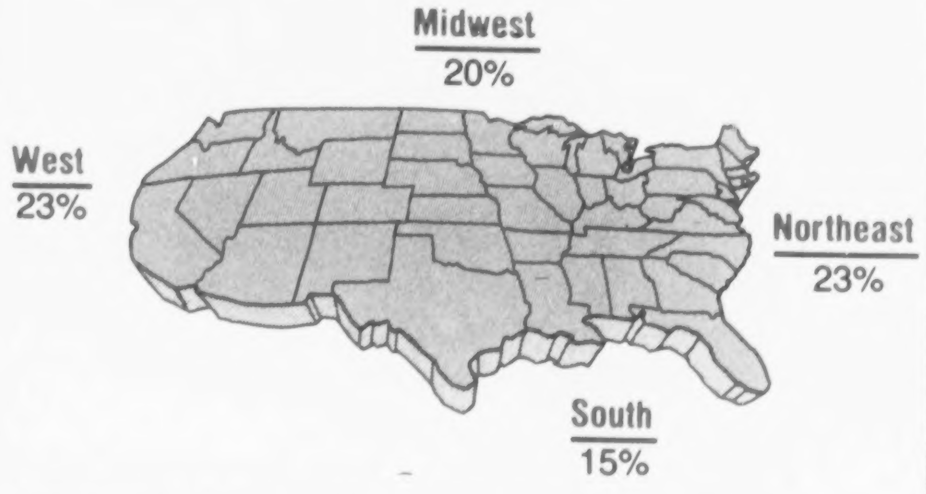
However, consumers are lavishing most of their food dollars on frozen foods, with a median of $150 spent on those items in alternative format stores. Microwaveable foods came in second, with a median of $100 spent on these items. Warehouse club stores do the best business in convenience foods, particularly in the frozen section (18% of consumers said they purchased them in the past year) and in coffee (13%).

Perhaps most worrisome to traditional grocery retailers is the demographic makeup of convenience food purchasers at alternative formats. These consumers tend to be younger, with larger households and higher annual income. Thirty-one percent of those who visit warehouse club outlets have children in the household, and 26% who shop discount department store outlets have children; only 13% of households with children purchased any convenience food in the past year from drug stores.

In contrast, 24% of households without children shopped for convenience foods at warehouse club stores; 18% of these households without children went to discount department stores to purchase food, while 18% of those households also picked up convenience food

FM Spotlight on: Microwaveable Prepared Food

20% of consumers purchased microwaveable prepared food at a warehouse club, discount department store or drug store in the past year.



Northeast and West regions garner highest percentages of microwaveable food buyers at clubs, discount and drug stores.

Mean spending on microwaveable foods in past year at clubs, discount and drug stores:

$177

Source: Leo J. Shapiro & Associates for **FM** items at drug stores.

"Consumers buying at discount stores are going to stock up on specific items," said Sara Parikh, a project director for Leo J. Shapiro & Associates, Chicago. "A large household, particularly with children, they're the ones looking for the giant jar of mayonnaise. And there's a greater incentive to make as many purchases as possible while there."

The study, which consisted of telephone interviews with 454 adults nationwide, showed that single person households and households without children are more likely to buy convenience foods from drug stores rather than from discount department stores or club outlets.

"These shoppers aren't likely to be doing much stocking up; they're really stopping in to buy one item or dinner for that night," Parikh said.

Overall, the data indicates consumers are much more willing today to make their convenience food purchases outside the supermarket, Parikh noted.

"Consumers are shopping more food and drug combination stores than ever before. It makes sense for discounters to expand their selections of convenience foods and dry grocery to capture more of those consumers," Parikh said.

Lunch box items, like single-servings of desserts, also proved to be popular items at warehouse club stores for households with children. Of the 175 respondents who said they had children in the household, 15.1% purchased lunch box items from warehouse club stores; 7.6% made purchases at discount department stores, while only 4.6% purchased those items at drug stores. The median amount spent on those items totaled $80.

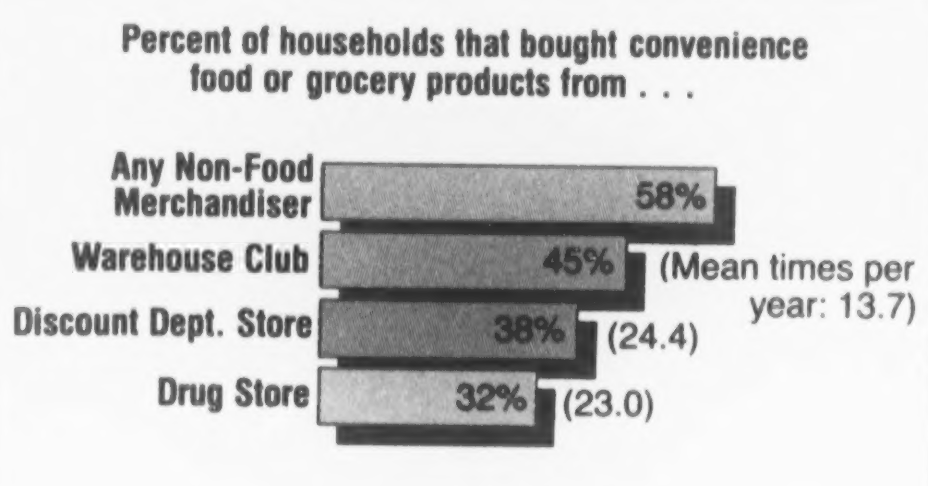
Grocery
Juices
Bottled Water
Drink Boxes
Grocery
Microwave Food
Condiments
499
2/5.00

ShopKo has repositioned convenience groceries from a traffic building position at the front, to a warehouse-racked department which offers a broader selection on the perimeter of the upscale-looking store.

Interestingly, the alternative format stores that are located in the West do the best business in convenience foods, with 64% of shoppers there saying that they purchase those c-food items at clubs, discount or drug stores. Forty-six percent of shoppers in the West said that they made their convenience food purchases at warehouse clubs.

In the Midwest, discount department stores, which attract 27% of shoppers, fare slightly better than do the warehouse clubs, which are able to bring in about 25% of shoppers. However, in the Northeast, the three alternative format types are running neck and neck in the race for a piece of the convenience food business. **FM**

FM Convenience Foods Shopping Summary



Source: Leo J. Shapiro & Associates for **FM**

Case Study: 'Alternative Channel Marketing'

The key question in marketing to alternative channels is "How can I adapt to new opportunities without getting burned?" said David Tuchler, director of Equal Marketing for The NutraSweet Company.

At a Chicago forum on targeting alternative formats, Tuchler gave a case history of Equal Sweetener's success across all outlet types. Things to consider, he noted, included the risk on profit margins ("Any new size puts a strain on warehouse and distribution systems") and the instability ("Grocery business is relatively stable in comparison to the more volatile, in-and-out mentality of other channels").

However, the company has been successful by using such strategies as:

- Staying consumer-driven by generating demand across all channels;
- Concentrating on customer service by meeting technological needs of these growing retailers and providing sales and service attention;
- Utilizing simple, effective promotions, such as NutraSweet's Cher Fitness video promotion; and,
- Changing product mix to meet consumer expectations of greater value, larger sizes and banded products. **FM**

$16.6B Food Sales for Top Chains

Wal-Mart, Sam's Club & Kmart Are Heavy-Hitters in Groceries

Wal-Mart, with an estimated $6.25 billion in food sales at its discount stores, Sam's Clubs and Wal-Mart SuperCenters, was the leading non-grocery store food retailer in the United States last year. *FM's* first census of the Top 15 non-food chains' share of the food business reveals that Wal-Mart's discount stores and SuperCenters rang up $3.5 billion in food sales, or 11% of the company's total $31.7 billion in sales. Sam's Club separately added another $2.75 billion in food sales to Wal-Mart's corporate total.

Although a relative newcomer to food retailing, Wal-Mart already generates more food and beverage sales than the total sales of all but the seven largest supermarket chains in the country. More importantly, food sales figures for Wal-Mart and the other discount department stores, warehouse clubs, drug stores and hypermarkets on *FM's* list do not include sales for the many general merchandise items sold in supermarkets and included in the supermarkets' sales figures.

Kmart, with $1.9 billion in food sales at discount stores last year, was the third largest non-grocery chain on *FM's* Top 15 list. Its Pace Membership Club division ranked No. 8.

Wal-Mart already generates more food and beverage sales than the total sales of all but the seven largest supermarket chains in the country.

Overall, the Top 15 list consists of four discount department store chains, five warehouse clubs, two hypermarkets/supercenters, four conventional drug stores, and one deep discount drug chain. (Phar-Mor and Ames tied for 15th place, thus 16 retailers are listed this year.)

Wal-Mart's already impressive food sales indicate how capable the giant retailer is of achieving the top spot among all American food retailers by the year 2000. The accelerated rollout of its SuperCenter concept to more of America's rural towns, replacing older, smaller Wal-Mart stores, will grow the company's food sales exponentially.

Likewise, Kmart will make a leap in food sales if its Super Kmart Center passes muster in its test stage.

Clubs like Pace and Costco already are closing in on $2 billion in annual food sales, and will likely increase food sales by 25% to 35% in each of the next five years. **FM**

Top Non-Food Merchandisers Ranked by Food Sales

Chain	Type	Total Sales* (000)	Est. Food Sales (000)	Units
Wal-Mart **Bentonville, Ark.**	DDS	$ 31,741,902	$ 3,500,000	1,720
Sam's **Bentonville, Ark.**	CLUB	9,430,157	2,750,000	208
Kmart **Troy, Mich.**	DDS	25,548,000	1,925,000	2,391
Price[1] **San Diego**	CLUB	6,598,053	1,715,000	58
Costco[1] **Kirkland, Wash.**	CLUB	5,215,500	1,616,805	71
Meijer **Grand Rapids, Mich.**	HYPER	2,900,000	1,110,000	67
Fred Meyer **Portland, Ore.**	HYPER	2,702,721	981,088	122
Pace **Englewood, Colo.**	CLUB	3,646,000	915,000	87
Target **Minneapolis**	DDS	9,041,000	550,000	463
B.J.'s **Natick, Mass.**	CLUB	1,432,228	360,000	29
Walgreens[1] **Deerfield, Ill.**	DRUG	6,733,044	330,000	1,646
Jack Eckerd **Clearwater, Fla.**	DRUG	3,800,000	195,000	1,675
Rite Aid **Camp Hill, Pa.**	DRUG	3,784,376	175,000	2,796
American Drug Stores **Oak Brook, Ill.**	DRUG	3,730,000	150,000	700
Phar-Mor **Youngstown, Ohio**	DDD	2,875,000	150,000	262
Ames **Rocky Hill, Conn.**	DDS	2,819,435	150,000	371
Total:		$121,997,416	$16,572,893	12,666

*For most recently completed fiscal year

[1] Fiscal year end 8/91; 9/91

Note: Food sales include candy, snacks and non-alcoholic beverages as well as traditional grocery food items.

DDS—Discount Dept. Store
CLUB—Membership Warehouse Club
HYPER—Supercenter/Hypermarket
DRUG—Chain Drug Store
DDD—Deep Discount Drug Store

Source: Company Research, **FM** Research

Alternative Formats

Supercenters operated by Kmart and Wal-Mart may ultimately be supermarkets' toughest competition.

Membership Club Shoppers Spend 60% More Per Visit than Supermarket Shoppers

On a monthly average, alternative format shoppers visit and spend . . .

	Average $ Per Month	Average $ Per Visit
Membership Club Avg. 1.4 visits	$120	$86
Mass Merchandiser Avg. 2.5 visits	78	31
Supermarket Avg. 4.1 visits	222	54
Sum	$420	

Source: FMI

Heavy Club Shoppers Spend More Than Supermarket Shoppers On Each Shopping Trip . . .

On a monthly average, the heavy membership club shopper visits and spends . . .

	Average $ Per Month	Average $ Per Visit
Membership Club Avg. 2.2 visits	$229	$104
Mass Merchandiser Avg. 2.4 visits	99	41
Supermarket Avg. 3.9 visits	281	72
Sum	$609	

Source: FMI

. . . But Light Club Shoppers Spend About the Same as Supermarket Shoppers per Shopping Trip

On a monthly average, the light membership club shopper visits and spends . . .

	Average $ Per Month	Average $ Per Visit
Membership Club Avg. 1.0 visits	$53	$53
Mass Merchandiser Avg. 2.7 visits	83	31
Supermarket Avg. 3.8 visits	196	52
Sum	$332	

Source: FMI

(Continued from page 8)

McKinsey said that these retailers' prices were "approximately 15% lower" than supermarkets. "More than half the difference is driven by the combination of more efficient operations and their willingness to earn a slightly lower EBIT than grocers."

As for deep discount drug stores, their prices are "approximately 18% lower" than supermarkets. "Operating efficiences explain four points . . . another four points are driven by the willingness of these operators to earn a 4% EBIT, which is lower than the EBIT earned by grocers [on a similar basket of merchandise]."

Supermarkets have responded to the challenge from alternative store formats in a number of ways:

- They have sought to buy merchandise sold to alternative food retailers in the same forms—club-packs, for example—under the same prices and terms. Some supermarkets have even acted against manufacturers that didn't offer the same goods.

Two major suppliers have instituted everyday pricing programs and cut back on deals, to establish and maintain low prices that would enable supermarkets to better compete with alternative store formats.

- They have added club-pack merchandise to their mix, either as part of their basic presentation or in a "warehouse" section.
- They are turning to technology to lower operating costs and improve customer service to become more price competitive while enhancing their appeal as the prime shopping choice for food merchandise. **FM**

Discount Industry Annual Report

PART II: MERCHANDISING AND PRODUCTIVITY ANALYSIS

Study Breaks Out Discount Sales

Twenty-six product categories will account for approximately $103 billion of the $105 billion in sales that full-line discounters—including traditional discount department stores, superstores, hypermarkets and dollar discount stores—are projected to generate this year.

Those 26 categories will account for the bulk of sales in membership warehouse clubs ($34.7 billion of a projected $35 billion total) and catalog showroom chains ($6.1 billion of a projected $6.4 billion total).

Specialty discounters, as a group, will also grab a large share of total discount industry sales in several product categories. The specialty discount store segment in this year's *DSN* State of the Industry Report: Part 2 includes craft, footwear, cosmetic & frangrance specialty chains, and sales of H&BC, food, and pharmacy through deep discount drug stores and other channels such as variety stores and discount home centers.

Among full-line discounters, hard lines merchandise represented the largest part of projected 1992 sales volume at just under $40 billion (about $10 billion of which, generated by H&BC and pharmacy departments combined). Hard lines includes H&BC, automotives, food, toys, hardware, sporting goods, stationery, lawn & garden, pharmacy and household cleaners.

Apparel categories, which include ladies', children's, men's, footwear, handbags & accessories, jewelry and cosmetics & fragrances, together will bring nearly $35 billion into full-line discounters.

Consumer Electronics, housewares, domestics, traffic appliances, photo, crafts, pre-recorded video, juvenile products and RTA furniture comprise *DSN's* definition of the home products merchandise group. Together these categories will generate revenues of nearly $29 billion.

Among the forces driving the discount store industry and the relative strengths and weaknesses of its merchandise categories in 1992 are the relentless demand for discount pricing by consumers,

(Continued on page 54)

***Women's apparel was the top** category for generating discount store sales in DSN's survey. To capitalize on this, stores like this ShopKo in Salem, Ore., are expanding their soft lines offerings.* (DSN photo)

Full-Line Discount Store Productivity: 1992

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales Per/Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	$11.9	$1,488	9,000	$165.28	4.5	45.7%	34.2%
Children's Apparel[1]	8.5	1,063	8,500	125.00	4.7	41.4	31.5
Men's Wear	7.0	875	6,500	134.62	4.3	42.3	32.9
Consumer Electronics[2]	6.8	850	2,200	386.36	3.8	26.2	17.5
Health & Beauty Care	6.2	775	2,400	322.92	5.4	20.8	16.1
Housewares[3]	5.7	713	3,500	203.57	3.5	38.1	28.6
Automotives	5.6	700	2,100	333.33	3.3	29.2	21.4
Food[4]	5.5	688	2,400	286.46	9.5	23.7	17.1
Domestics	5.1	638	3,600	177.08	3.1	42.1	32.2
Toys[5]	5.0	625	3,000	208.33	3.1	31.2	23.7
Hardware[6]	3.8	475	3,000	158.33	2.6	35.2	27.8
Sporting Goods	3.8	475	2,550	186.27	2.6	33.1	24.8
Stationery[7]	3.2	400	2,200	181.82	3.4	44.8	41.2
Lawn & Garden	3.0	375	1,450	258.62	2.3	25.1	13.8
Traffic Appliances	3.0	375	2,000	187.50	4.1	24.5	15.4
Photo[8]	2.9	363	450	805.56	3.7	21.1	15.6
Pharmacy	2.7	344	600	572.92	NA	NA	NA
Crafts	2.5	313	1,100	284.55	2.6	41.9	33.8
Footwear	2.1	263	2,200	119.32	3.3	50.4	39.2
Accessories[9]	2.1	263	2,200	119.32	3.7	45.8	43.9
Jewelry[10]	2.0	250	1,000	250.00	1.8	50.9	40.2
Cosmetics & Fragrances	1.0	125	1,000	125.00	2.5	34.5	27.2
Household Cleaners	1.0	125	1,500	83.33	5.1	18.3	5.1
Prerecorded Video	1.0	125	150	833.33	4.5	NA	24.9
Juvenile Products[11]	0.8	100	1,000	100.00	3.8	33.1	25.4
RTA Furniture	0.7	88	500	175.00	NA	NA	NA

[1] Children's Apparel includes boys', girls' and infants'
[2] Consumer Electronics includes records and tapes
[3] Housewares includes non-electrics only
[4] Food includes candy, snacks, beverages and packaged foods
[5] Toys include wheel goods and video games
[6] Hardware includes paints, tools and home improvement items
[7] Stationery includes office supplies and greeting cards
[8] Photo includes cameras, film and supplies
[9] Accessories includes handbags and hosiery
[10] Includes costume and fine jewelry
[11] Juvenile Products includes furnishings, seats, strollers and baby needs
NA—Not available or not applicable

Source: DSN research

Annual Discount Industry Report

Part II:

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Survey Shows Top Sales Categories

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as is evidenced by happenings within the department store industry. In order to survive, many full-price department stores today are taking a discount-like stance in at least some merchandise categories or are opening off-price formats of their own, such as Nordstrom's recently announced endeavor.

The recession is only part of the reason for the trend to discounting. As one dollar store executive has said, yesterday's consumers was motivated by "conspicuous spending" and by a pride in owning pricey goods bought at tony stores, while today's consumer is more likely to boast about bargains and "smart shopping."

But shopping smart does not always mean shopping at full-line discounters. Consumer are faced with a myriad of different discount shopping concepts. While warehouse clubs typically sell to businesses for resale or internal office use, there is no question that in categories like consumer electronics, H&BC, pharmacy and jewelry (and probably many others), a sizeable chunk of their sales are for personal member use.

Other discount dollars are going to specialty discounters. Categories where specialty chains are likely to gain market share in 1992 include apparel, consumer electronics, toys and hardware—categories which feature category killers like Marshalls and T.J. Maxx, Circuit City and Best Buy, Toys "R" Us and Home Depot.

Among the highlights of this year's report:

- Children's wear led the charge in the apparel category at discounters, which snare about 40% of total business in the kids' wear market.
- Discounters in the men's wear market are counting on casual sportswear for growth. Two directions are expected this year: a greater influx of casual coordinates that began showing up during 1991 and more emphasis on exclusivity.
- With its market share of the total automotive parts and accessories retail market forecasted to dip to 21% by 1995 from 24% last year, the discount store industry is turning to computerized parts kiosks and warehouse-style displays to try to counter the decline.
- Prospects for sales of jewelry at full-line discounters during 1992 are promising, but the jewelry business is still fluctuating as different retail formats vie for a share of the market, or struggle to maintain current volume levels.
- Grocery sales at discounters will continue to grow at a healthy pace in 1992. In fact, the expansion of general merchandise retailers into supermarket product categories has been so rapid that it has caused a great deal of controversy within the food industry over fair pricing policies.
- Consumers are increasingly shopping mass merchandisers for their health & beauty care needs. The market share for mass merchandisers has been rising steadily in the last few years and will likely continue to do so in the coming year. Changing demographics, particularly the general aging of the American population, will probably be one of the strongest influences in the merchandise selection and promotional strategies at discounter H&BC departments in the years ahead.
- Now that the majority of discounters has positioned the cosmetics department closer to the accessory areas, the category's image has been given a facelift. Brand name marketing programs and displays which, in some cases, even rival upscale department stores, coupled with the introduction of new mass market brands are expected to help fuel category growth.
- Full-line discounters have quietly turned up the heat in the CE category. Industry-wide, discounters have upgraded their vendor mix, refixtured their departments, added state-of-the-art merchandising tools, and entered new, high-tech product niches.
- Accessories have proven to be a fertile merchandise category during a recession. While it may cost too much to buy a dress, the purchase of a scarf,

The brilliant reds and golds of Autumn are pretty. But the best color of all is still...

BIG MONEY
GREEN

And that's a color Harlequin can help you see more of beginning September, 1992

Harlequin books are about love. Harlequin's business is also about love – the love of money. We do not publish books to gather dust on your shelves. We publish them to sell and make you money.

And we're good at it:

Shelf space you give Harlequin is always profitable, because

- Harlequin books earn an average of $945 in sales/square foot/year – **as good as big name best selling paperbacks.***
- Harlequin books average **12 turns per year,** which compares favorably to most other non-grocery items.*
- Harlequin markets its products the way large packaged goods marketers do. We put nothing on your shelves that has not been pre-tested.

When we take a product to market we know it's going to succeed.

a pin or a necklace to update an existing dress is often an affordable feel-good impulse purchase.

- In-line skates will be the star performer in sporting goods this year in terms of sales growth.
- With the help of such products as trolls, Barbie and high pressure water guns, the toy industry is hopeful sales in 1992 will surpass 1990 and 1991 levels. Early reports paint a more optimistic picture than last year at this time.
- The ready to assemble furniture category at full-line discounters was bolstered by the soft economy last year. Improvements in RTA style and its ease of assembly are expected to win over more consumers in 1992.
- Some discounters are utilizing on-site film developing as the centerpiece of a cross-merchandising strategy designed to build sales in higher margin accessories and special formats. Others have scaled back their selection of higher-end SLR cameras in favor of adding less expensive point-and-shoot models that turn quicker.
- Aided by the explosive growth of office supplies and the large infusion of fashion-forward merchandise, back-to-school/home office stationery sales should remain fairly strong this year.
- Discounter's share of the crafts category is projected to continue its steady climb in 1992.
- Lifestyle merchandising—offering merchandise that reflects how customers spend their time as well as the types of merchandise they use within their homes—will continue to be a key buying decision tool for discounters selling housewares in 1992.
- Due to a combination of the failure of large department stores, expansion of categories, and upscaling in both fashion and price point, discount stores are now the dominant channel of distribution in the area of domestics.
- Women's apparel sales grew modestly in 1991, but that glimmer of hope has retailers poised for a more promising 1992.

Methodology

This year, *Discount Store News* has once again generated the single most comprehensive and authoritative text on the discount industry and its 1992 projected sales volume by merchandise category.

Improvements to this year's Census Part II Report include the addition of more detailed merchandise information and calculations on the forecasted 1992 sales volume generated by membership warehouse clubs in categories typically sold through these outlets. The decision to include clubs reflects the emerging dominance of these outlets in select merchandise categories such as food, household cleaners and stationery and office products.

Categories newly listed in this year's report include food, lawn & garden, pharmacy, crafts, footwear, handbags & accessories, cosmetics & fragrances, household cleaners, pre-recorded videotapes, juvenile products like car seats and strollers, plus ready to assemble furniture (RTA is exclusive of other lifestyle furniture such as bean bag and folding chairs).

In some cases, the projected sales volume for the newly listed categories was reflected in previous years within larger categories (such as RTA within housewares). In other instances, the new classifications reduced the sales volume which would otherwise have been included in the "Other" grouping (such as crafts).

We believe these changes will provide a more thorough evaluation of the evolving discount store industry and the merchandise it will sell during the current calendar year.

The report was the product of intensive research by the *DSN* staff, as well as detailed (and confidential) data and assistance from top discount chain executives, leading manufacturers and well-regarded trade associations.

This September we get even better
In September Harlequin is turning up the sales power of all our Harlequin and Silhouette series with:

A TERRIFIC NEW COVER TREATMENT

We've used the work of leading photographers and illustrators to create dramatic new cover designs that suit the attitudes and tastes of readers of the '90s

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MESSAGE FROM MAGENS BAY
THE KNIGHT IN SHINING ARMOR
JoANN ROSS
INTRIGUE
Child's Play
Bethany Campbell
CATHY GILLEN THACKER
THE COWBOY'S MISTRESS
The Reluctant Bride
Barbara Bretton
THE UGLY DUCKLING

for Silhouette:

Silhouette ROMANCE
Val Whisenand
Silhouette
MARIE FERRARELLA
Silhouette
MISTRESS OF MAGIC
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Harlequin supports the new cover program with a multi million dollar advertising/promotional campaign, to reawaken readers to the pleasures of Harlequin & Silhouette books and send them to your store. This will include large space ads in these major publications: ▶

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*Management Horizons, Division of Price Waterhouse

Lack of Focus Dampens Women's Apparel Sales

Women's apparel sales grew modestly in 1991, but that glimmer of hope has retailers poised for a more promising 1992.

The problems that have plagued ladies' apparel retailers for the past few years—little fashion direction and competition from specialty stores—are still the obstacles facing full-line discounters this year.

The lack of a clear fashion trend is the most pervasive problem. In addition, the success of off-pricers that feature department store merchandise at value prices has made it all the more urgent for full-line discounters to develop a complete fashion statement in their ladies' departments.

Brands still are the key to a successful apparel merchandise mix. The larger vendors, Gitano, Chic, Bonjour and Sasson, continue to be well-recognized in consumer studies.

However, the most successful brands during 1991 reflected the careful shopping patterns of a money-conscious consumer. Intimate apparel was among the leading categories in the women's area, with Fruit of the Loom and Hanes among the top-selling brands.

Fruit of the Loom is expected to make even more of an impact on the discount market in the coming year. Waranaco licensed the Fruit of the Loom name and the first line of bras under that label hit stores spring 1992.

Ladies' Wear $19.0 Billion	
Full-Line Discounters	$11.9B
Catalog Showrooms	—
Membership Warehouse	$0.7B
Specialty Discounters	$6.4B
Full-Line Discount Store Productivity	
Sales	$11.9B
Sales Per Store	$1,488,000
Dept. Size	9,000 Sq. Ft.
Sales Per Sq. Ft.	$165.28
Turns	4.5
Initial Markup	45.7%
Gross Margin	34.2%

Source: DSN research

In sportswear, shorts—which were a hit across all apparel markets—are doing well again in summer 1992 and for fall, denim looks like a winner; the five-pocket basic silhouette is favored by most discount buyers.

In a market searching for a trend, the word "basic" has come to mean a style all its own.

Five-pocket jeans, T-shirts in a range of colors and black leggings were uniformly fundamentals in the women's area.

Now that a few seasons of modest spending have passed, retailers may see women finally needing to replace not just their bras and panties and black leggings, but sportswear and casual clothing as well.

In refining ladies' apparel, many discounters are again looking to private label.

Kmart this year announced its first major private label introduction since Jaclyn Smith, the B.E. line. Wal-Mart has signed an exclusive licensing agreement to use the White Stag label.

Kmart's B.E., much like Target's Merona program, gives the apparel basics a label of their own. Both programs focus on standard wardrobe pieces such as T-shirts twill bottoms and knit tops.

As in men's wear, sweaters performed poorly in 1991, but some detailed sweaters for holiday are expected to make a splash.

While full-line discounters try to capture the fashion customers, off-pricers are set on finding a way to keep the fashion-driven customers they already have.

One advantage for the off-pricers is that less is required in terms of display.

Full-line discount stores, on the other hand, work to update merchandise and fixturing in tandem.

Stores such as 50-Off, One Price Clothing and Burlington Coat Factory grew considerably in 1991 with a no-frills approach. Even market leaders such as T.J. Maxx found that extras such as carpeting are not as important in the off-price apparel format. In its new Long Island stores, T.J. Maxx took the carpeting off its ladies' fashion apparel area, but reported no difference in sales.

The display formats that work best for all types of apparel outlets are likely to keep changing.

Discounters are already limiting elaborate vendor shops and concentrating on well-displayed category departments. Target, for instance, has stayed away from vendor displays. Likewise, Kmart has created multi-vendor "power" departments rather than highlighting one vendor.

On the other hand, off-pricers are making concessions as well.

Four-way fixtures, waterfall display and somewhat shorter piperacks are making stores such as Marshalls pleasant to shop in without appearing like an expensive, full-price specialty retailer.

The success of off-pricers also has more companies entering the frey. Nordstrom's announced it would open a number of off-price stores this year, separate from its Rack close-out chain.

Target Stores also introduced its first specialty spin-off this year, Everyday Hero. Still in test mode, this all-apparel format is not expected to extend beyond two stores, at least for 1992.

Accessories Sales Accelerate, Category Gains Precedence

Accessories have proven to be a fertile merchandise category during a recession. While it may cost too much to buy a dress, the purchase of a scarf, a pin or a necklace to update an existing dress is often a feel-good and affordable impulse purchase.

Accessories did well in 1991, and to keep the momentum going, discounters are updating merchandise and formulating merchandising strategies for the department, rather than considering it an afterthought.

The accessories department *at one time only carried women's items, today retailers have expanded their mix to include children's merchandise such as Barbie earrings.*

Just as in apparel, the products that are considered "hot" change frequently in this market. In 1992, retailers can expect caps to continue to top sales. Hair accessories are also doing well, with scrunches and handbands, popular items for those with long tresses.

The look of the accessory area is also undergoing some changes. Most discounters now feature the department closer to the front of the store. At regional discounters such as Jamesway and Venture, new prototype formats are making the department easier to shop by sectioning the many accessory sub-categories.

The actual merchandise has also been upgraded. Most discounters offer real leather handbags as well as vinyl in their departments.

One big success story that will surely continue is sportbags. Used as everyday totes or for lugging around exercise items, the bags get heavy workouts and need replacing. The consumer is also buying more than one at a time in order to match the myriad of colors and patterns with an outfit or mood.

Manufacturers are also increasing the number of styles offered in sportbags. Duffles and backpacks will be featured prominently, especially for back-to-school.

The accessory department at full-line discounters is changing in another way. At one time it featured only women's accessories.

However, in stores such as Venture, a broader range of children's merchandise from Barbie earrings to Mickey Mouse hair clips are now featured in an all-inclusive accessory department.

Accessories[1] $2.9 Billion	
Full-Line Discounters	$2.1B
Catalog Showrooms	—
Membership Warehouse	—
Specialty Discounters	$0.8B
Full-Line Discount Store Productivity	
Sales	$2.1B
Sales Per Store	$263,000
Dept. Size	2,200 Sq. Ft.
Sales Per Sq. Ft.	$119.32
Turns	3.7
Initial Markup	45.8%
Gross Margin	43.9%

[1] Accessories include handbags and hosiery

Source: DSN research

Footwear[1] $10.6 Billion	
Full-Line Discounters	$2.1B
Catalog Showrooms	—
Membership Warehouse	—
Specialty Discounters	$8.5B
Full-Line Discount Store Productivity	
Sales	$2.1B
Sales Per Store	$263,000
Dept. Size	2,200 Sq. Ft.
Sales Per Sq. Ft.	$119.32
Turns	3.3
Initial Markup	50.4%
Gross Margin	39.2%

[1] Also includes sales through leased departments

Source: DSN research

One area that is not faring as well in accessories is belts. With oversized tops a predominant fashion trend, the need for fashion belts has been diminished.

More stores are carrying basic styles in belts that work with basic bottoms like jeans. Belts as a whole have also suffered as more manufacturers include them with a purchase.

They may not be making a comeback too quickly, but with more body-hugging styles using Lycra spandex coming into vogue, belts may have a resurgence in sales.

The shoe area—whether a leased department at Kmart or company owned like Wal-Mart or, recently, Venture—is having to compete with other retailers on a different level.

Specialty sporting goods stores are by far the favorite venue for the best selling shoes—branded sneakers. That has made it necessary for offerings at discounters to favor items like casual shoes for women and work shoes for men.

Discounters will continue trying to lure brands into the stores, but market leaders like Nike are not likely to bite. At least not this year.

Brands are not as predominant in other shoe areas, but the large apparel brands—Gitano, Chic, Bonjour, Sasson—bring name recognition into the shoe department as well.

Costume, Children's Jewelry Find Silver Lining

Prospects for sales of jewelry at full-line discounters during 1992 are promising, but all that glitters is not gold.

The jewelry business is still fluctuating as different retail formats vie for a share of the market, or struggle to maintain current volume levels.

In a difficult economic year, luxury items such as jewelry are often the first to suffer.

Jewelry[1] $5.9 Billion	
Full-Line Discounters	$2.0B
Catalog Showrooms	$2.2B
Membership Warehouse	$0.7B
Specialty Discounters	$1.0B
Full-Line Discount Store Productivity	
Sales	$2.0B
Sales Per Store	$250,000
Dept. Size	1,000 Sq. Ft.
Sales Per Sq. Ft.	$250.00
Turns	1.8
Initial Markup	50.9%
Gross Margin	40.2%

[1] Includes costume and fine jewelry

Source: DSN research

However, during 1991, gold jewelry and name brand watches were still on plan for many mass merchandisers. Costume jewelry also sold well—mirroring the accessory market—at a time when apparel was soft.

However, because of the wider range of accessory items now available at the mass market, jewelry found itself competing for those extra disposable dollars with merchandise such as caps, hats, scarves and other items.

The trends in jewelry offerings were in two directions for 1991.

Traditional gold-toned jewelry made use of pearls and demure button shapes.

The trendier side of the story included opaque gold colorations in everything from earrings, necklaces and pins. Silver continues to do well, mostly attracting a younger consumer.

An expected resurgence of denim may help sales of silver jewelry in the coming year.

For 1992, pins may be making a comeback. There were already large collage pins in the market, reminiscent of art deco styling. These began flooding accessory and specialty stores in 1991 and are now edging their way into discount department stores.

ShopKo, Salem, Ore., features an upgraded jewelry section *and offers costume as well as a wide range of 14kt gold and sterling silver jewelry.*

(DSN photo)

Two other areas of growth, both intertwined are children's jewelry and licensed jewelry.

"Beverly Hills 90210" necklaces were a hit with young girls. A spinoff show beginning soon may make way for "Melrose Place" necklaces for back-to-school.

Licenses are also prevalent in the watch category, where they transcend age. Mickey Mouse watches and Muppet watches only scratch the surface of available watch licenses.

One general watch trend has been in sport watches. Functional watches with timers and less complicated versions that still maintain that sportwatch look should continue to do well.

One challenge for the jewelry industry will be managing the increasing number of retail outlets, especially those that sell fine jewelry.

Mass merchandisers are well established as sellers of moderately priced 14-karat gold jewelry and brand name watches. Catalog showrooms, a leader in fine jewelry sales, are expected to maintain dominance in this category, despite the decline in the number of catalog showroom companies over the past several years.

Off-pricers offer some of the same brands alongside more expensive items ($1,000 Rolex watches, for instance). Membership warehouse outlets (which also don't shy away from $1,000 and above price points on such items as diamond pendants and watches) are also growing furiously, and they will be snaring a larger piece of the jewelry pie.

Cosmetics Dept. Gets a Lift From Improved Image, Strategy

Now that the majority of discounters have positioned the cosmetics department closer to the accessory areas, the category's image has been given a facelift.

Brand name marketing programs and displays which, in some cases, even rival upscale department stores, coupled with the introduction of new mass market brands are expected to help fuel category growth.

Without the cache of department store brand names, the broad selection of conventional drug chains or the pricing at deep discount drug stores, the challenge for full-line discount stores will be to find a formula of brand and price that entices its cosmetics consumer.

According to a study on consumer purchasing behavior conducted by MPSI/Retail System, Minneapolis, Minn., cosmetics were often the catalyst for longer shopping trips. Consumers shopping for cosmetics generally travel further to get what they need than when traveling to a retailer for other products.

That may be a big opportunity for discounters that carry the right products. During 1991, face makeup and lip makeup were termed "hot" mass market products by A.C. Nielsen's study of the H&BC marketplace.

Cosmetics & Fragrances $1.6 Billion	
Full-Line Discounters	$1.0B
Catalog Showrooms	—
Membership Warehouse	—
Specialty Discounters	$0.6B[1]
Full-Line Discount Store Productivity	
Sales	$1.0B
Sales Per Store	$125,000
Dept. Size	1,000 Sq. Ft.
Sales Per Sq. Ft.	$125.00
Turns	2.5
Initial Markup	34.5%
Gross Margin	27.2%

[1] Includes off-price apparel chains, deep discount drug stores and other specialty discounters.

Source: DSN research

Manufacturers catering to the discount store marketplace have done their share of upgrading to foster new images.

Maybelline, for instance, created new packaging and labeling for its brand. The company also introduced Shades of You last year, the first major brand of ethnic cosmetics. Many discounters are using the brand within their regional merchandising programs, where there are large ethnic communities.

Fragrances are another category which has done well in the mass market. While the trend toward copy-cat colognes for the discount arena has died down, companies like Max Factor with its successful California brand and Quintessence with its new Caliente line will take advantage of brand recognition for sales at discounters during 1992.

Fragrances has been a tricky merchandise category, because many off-pricers have begun offering designer name perfumes in their stores. But this has done more to hurt department stores than discounters, where established mass market brands are sold, as well as some prestige brands, usually obtained through diverters.

This merchandise category is hot enough now that even chains like Kmart report they are looking into designer fragrances as a possible merchandise category in the future. A new display is already in place at many Kmart stores to better showcase the fragrance offerings. And, Wal-Mart also gives fits to full-price department store with its full-line of upscale brand name fragrances, said to be obtained through diverters.

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At Discount, Men's Sportswear Collars Dollars

Discounters in the men's wear market are counting on casual sportswear to bring in the retail dollars. The coming year will likely see the men's wear category take two directions: a greater influx of casual coordinates that began showing up during 1991 and more emphasis on exclusivity.

Casual sportswear—like Levi's Dockers—has been developed by manufacturers such as Gitano, Reed st. James, MacGregor and Wrangler's Timber Creek division, and has already changed the look of men's wear at discount stores.

No longer just a place for jeans and work shirts, discounters are making a concerted fashion statement in men's.

In-store men's apparel shops, which Gitano and MacGregor aggressively marketed a few years ago, have given way to smaller fixtured and signed brand areas within a store which no do not overwhelm other fixtures.

Fashion exclusivity, once less important in men's than in women's, has extended into the male domain. With introductions planned for this fall, each of the top full-line discounters will have cornered a particular label.

Gitano, for instance, is customizing its AmeriCo line of men's casual separates for two of its largest accounts. While Kmart will feature the AmeriCo label; Gitano's casual offerings for Wal-Mart will be marketed under a different name.

Men's Wear $10.5 Billion	
Full-Line Discounters	$7.0B
Catalog Showrooms	—
Membership Warehouse	$0.3B
Specialty Discounters	$3.2B
Full-Line Discount Store Productivity	
Sales	$7.0B
Sales Per Store	$875,000
Dept. Size	6,500 Sq. Ft.
Sales Per Sq. Ft.	$134.62
Turns	4.3
Initial Markup	42.3%
Gross Margin	32.9%

Source: DSN research

Target, Austin, Texas, emphasized casual apparel *in its men's department. The chain took advantage of the sports licensing craze.* (DSN photo)

Another move toward exclusivity has included tapping into already existing brands. Target Stores was among the first to bring established labels into its fold exclusively through brands such as Merona and Elliot Bay.

Now, Wal-Mart is banking on that strategy. The country's largest discount retailer has acquired exclusive licensing rights to the White Stag label, a division of Authentic Fitness, makers of Speedo swimwear. According to Warnaco, Authentic Fitness' parent, men's activewear and skiwear are the initial categories that will be sold at Wal-Mart under the White Stag name.

Until now, specialty stores and regional discounters pitted against Wal-Mart couldn't compete on most hard lines; but fought back with fashion apparel. The new efforts at Wal-Mart may change all that and further fuel the competition, especially in men's apparel.

During 1991, men's casual tops, shorts and underwear were the category leaders. That is likely to remain consistent in the coming months. Some minimal growth in the sweater area is expected, mostly for holiday. Industry watchers also predict that jeans, which began a modest comeback in 1991 (a 4.1% increase from a year earlier) will show more aggressive growth beginning in the fourth quarter.

As in boys' wear, sports licensed apparel did well. Manufacturers and discounters are continuing to capitalize on this trend. Discounters' shelves for fall may feature less screen-printed sports logos on T-shirts and more expensive details such as embroidery and appliques.

Men's suits remain an area of difficulty for discounters, although updated accessories have done well at various discounters.

Discounters' Kids' Wear Snares Market Share

Children's wear has again led the charge in the apparel category at discounters, which snare about 40% of total business in the market.

Discounters that began revamping the kids' department a year ago are now putting the finishing touches on the area.

Focusing on tried and true trends such as cotton basics and newer selling successes such as kids' accessories, discounters are beefing up their children's departments even more for 1992.

But while the share of market grows at discounters for children's wear, they are not necessarily leading the way in terms of the fashion trends in this apparel segment.

In fact, the past year was marked by fragmented trend stories, with still differing trends expected for the coming season. Denim is expected to make a back-to-school comeback. But basics are still the word of the day. They are, however, brighter.

One trend discounters picked up on was the success of The Gap and GapKids, specifically.

Specialty stores such as Kids "R" Us introduced Threads, a private label line of kids' basics designed to bridge the price between The Gap merchandise and the price mass merchandise shoppers are willing to spend.

Children's Apparel[1] $10.5 Billion	
Full-Line Discounters	$8.5B
Catalog Showrooms	—
Membership Warehouse	—
Specialty Discounters	$2.0B
Full-Line Discount Store Productivity	
Sales	$8.5B
Sales Per Store	$1,063,000
Dept. Size	8,500 Sq. Ft.
Sales Per Sq. Ft.	$125.00
Turns	4.7
Initial Markup	41.4%
Gross Margin	31.5%

[1] Children's Apparel includes boys', girls' and infants'.

Source: DSN research

Threads, tested in a number of Kids "R" Us stores, also made use of what can be termed Gap-like fixtures: wooden table displays and four-way hanging fixtures.

Full-line discounters got into that act as well with the help of manufacturers such as Gitano. Through its new Baby Gitano line, and then extended to its E.J. Gitano girls' line, the company introduced colorful basic T-shirts and, for toddlers, one-piece playsuits.

The 100% cotton fabric and "upscale" colorations such as mango use different matching colors on turned-up sleeves and collars to give an "updated basics" look in this line.

A trend The Gap began—basic silhouettes in new colorways—will likely continue.

Kmart is already making a play for that market. It is introducing its new B.E. private label line into the girls' area for this fall.

Target Stores, through its Everyday Hero specialty store concept, also went after The Gap atmosphere.

One downside in children's was the disappearance of a definitive licensing star. Last year was the first after a number of years of continued growth in licensed apparel that the licensing industry overall experienced a decline. With children a primary target for licensed merchandise, the decline was heavily felt in this category.

Of the licenses that did flourish, sports licenses were leaders, especially in the boys' area. The sports theme even influenced non-licensed goods. Baseball jersey styles sans logo are likely to be an after effect of the sports licensing craze.

Standards such as Disney and Muppets did well, but in the character licensing arena, sales remained fragmented.

Batman may change all that. Girls' merchandise based on the Catwoman character is adding a new dimension and audience to the license. In addition, a cartoon series beginning in the fall is positioned to continue to fuel sales long after "Batman Returns" is out of the theater.

There was one area in the children's category that mirrored what was happening in the ladies' department. That was the advent of accessories.

From handbags to hair clips, with both licensed and unlicensed merchandise, kids were getting a lot of attention.

Goody Products made headway with Barbie & Mickey hair accessories.

Regional retailers such as Jamesway took advantage of the phenomenon with displays of kid-size sportswear and fixtures highlighting caps, belts and sporty accessories.

DISCOUNT INDUSTRY ANNUAL REPORT: PART II

Consumer Lifestyles Steer Housewares Market

Lifestyle merchandising—offering merchandise that reflects how customers spend their time as well as the types of merchandise they use within their homes—will continue to be a key buying decision tool for discounters in 1992.

The lifestyle factors will change with the ethnic composition of the United States, especially near metropolitan centers. An emerging demand for merchandise related to one's "roots" will color the food preparation and meal serveware choices of some discount shoppers. These ethnic influences are already being manifested in the foods section at some chains. For example, sales of salsa toppled ketchup last year. This revolution in America's eating habits is likely to pervade all aspects of home products.

The steady fall of department store chains is expected to present more and more opportunities in the housewares category for discounters, especially those with a customer base looking for trade-up lines. And, in 1992, as department store suppliers continue to see the decline of this market segment, these brands will not only find their way onto discounter shelves, but new energy will be devoted to the discount market segment, providing new product innovations.

The department store ailments will also allow discounters to maximize the gift potential of well-packaged and well-merchandised household basics and giftware. Many chains have been reporting increased sell-through during their holiday promotions, and the decline of department stores will only build on this trend.

Housewares $7.6 Billion	
Full-Line Discounters	$5.7B
Catalog Showrooms	$0.9 B
Membership Warehouse	$1.0B
Specialty Discounters	—
Full-Line Discount Store Productivity	
Sales	$5.7B
Sales Per Store	$713,000
Dept. Size	3,500 Sq. Ft.
Sales Per Sq. Ft.	$203.57
Turns	3.5
Initial Markup	38.1%
Gross Margin	28.6%

Source: DSN research

Added space for snacks or even groceries at some chains will provide more cross-merchandising opportunities for housewares in 1992.

In 1992, non-electric housewares—including plastics, dinnerware, closet storage, ironing needs, cookware and other categories—will continue to be shaped by the "lifestyle" focus merchandisers adopted last year.

QUALITY
Rubbermaid
FOR KEEPS

A Venture unit in Des Moines, Iowa, *uses the high-recognition Rubbermaid logo to spotlight its housewares department.* (DSN photo)

The lines of communication between soft home goods and hard home goods buyers intensified during 1991 to allow for better coordination of colors in bath accessories with towels, and in dinnerware and glasses with tablecloths and placemats.

The current year is likely to see more investigation of how to build add-on sales by simply coordinating merchandise colors across related home decor categories. Other categories which lend themselves to inclusion in broad based home decor themes include framed art, clocks, silk flowers/crafts and others.

Variations in the lifestyle composite picture of a chain's customer has prompted at least one large national chain to develop a specific color spectrum for the housewares department, even for goods that would not typically be thought of as "fashion" goods. At Wal-Mart its grand color scheme will embrace even "hot" custom-colored ironing board frames for the back to school season. While ironing board covers have had a fashion focus for years, offering colored frames is a new twist. The color story will pervade the housewares category during back-to-school.

Traffic Appliances $4.6 Billion	
Full-Line Discounters	$3.0B
Catalog Showrooms	$0.6B
Membership Warehouse	$1.0B
Specialty Discounters	—
Full-Line Discount Store Productivity	
Sales	$3.0B
Sales Per Store	$375,000
Dept. Size	2,000 Sq. Ft.
Sales Per Sq. Ft.	$187.50
Turns	4.1
Initial Markup	24.5%
Gross Margin	15.4%

Source: DSN research

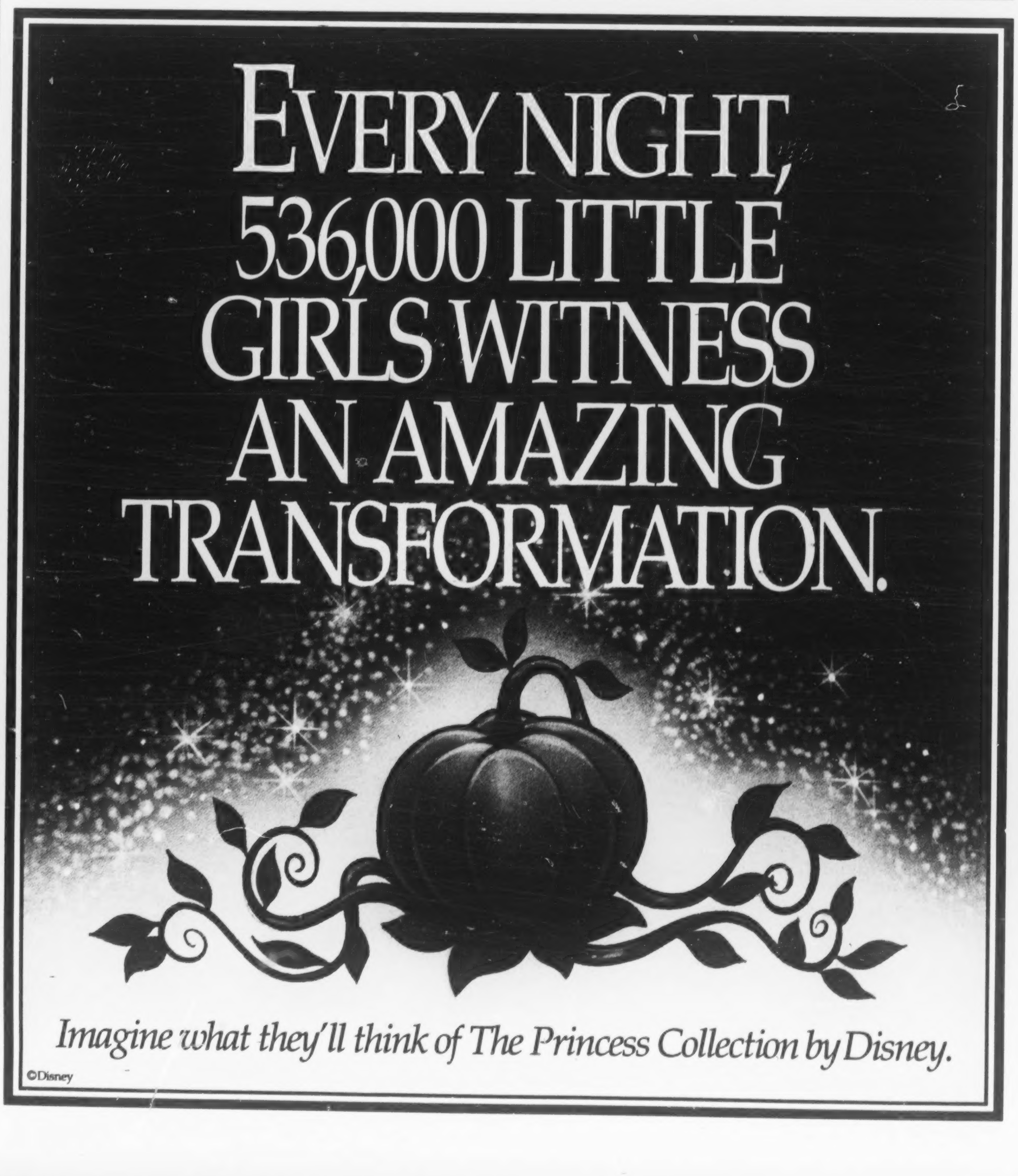
During 1991 Kmart and Target continued exploring private label housewares products ranging from traffic appliances at Kmart to Target's label tabletop, lighting, ready-to-assemble furniture and giftware.

Numerous regional chains repositioned toward "core" departments last year, with housewares emerging as the backbone of the home products category, frequently wresting square footage from hard lines categories like automotives and sporting goods to create housewares as a destination center.

Shop concepts, most notably from Rubbermaid, were developed to put the spotlight on the department and its high-recognition brands. Another device for spotlighting brands was to use the brand logos on the walls of the store or department signs. Corning shops had been tested in Zellers stores in Canada and could be tested in the U.S. some time this year.

Traffic appliances—including everything from coffee pots to hair driers to microwave ovens and vacuum cleaners—are projected to achieve gross margins above 15%, on average, aided by new styles, functions and safety features.

Cooking appliances and tools for more "healthful" foods including woks, stove top grills and steamers had a good year in 1991, and juicers with prices for the mass market are this year's extension of the push for health.



EVERY NIGHT, 536,000 LITTLE GIRLS WITNESS AN AMAZING TRANSFORMATION.
Imagine what they'll think of The Princess Collection by Disney.
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Discounters Dominate Domestics Market Share

Due to a combination of the failure of large department stores, expansion of categories, and upscaling in both fashion and price point, discount stores are now the dominant channel of distribution in the area of domestics. This carries through virtually every major product category, with the exception of window treatments, which still find their way to market through specialty stores as a rule.

But in towels, bed linens, bedding, kitchen textiles, tabletop and most other home fashions categories, the full-line discounter is king, a trend that has led directly to the near-death of the Market Week system. Chain preference for partnerships with major mills has led to the type of close, ongoing relationships that make a twice a year showcase at very best redundant.

"I have my best customers in and out of here every few weeks," one manufacturer said. "Since they account for about two-thirds of my sales, I don't know why we even bother [with Market Week]."

Full-line discounters accounted for an estimated $5.1 billion in domestics sales last year, of an estimated industry volume of $16 billion. Membership warehouse clubs accounted for another $1 billion, and specialty discounters added another $2.6 billion. So well over half of all domestics sales were rung up at discount cash registers.

The market as a whole has been flat for several years, but discounters' share continues to grow. Even the recession, which caused retailers to cut back on inventory and even ship back unwanted merchandise, failed to slow the overall swing to discounters. The continued weakness of the department store and mass merchant categories favored discounters.

However, the recession did place a strain on margins for both vendors and retailers. Domestics is one of the most profitable areas in the discount store, with gross margins in the low 30s for many products. However, prices continue to drop precipitously for opening price point goods, and in some cases, retailers are virtually giving high volume, traffic-building items away.

Merchants are attempting to build profits back into the department by adding new products or categories (down comforters, area rugs, 100% cotton sheets), coordinating departments to stimulate high-margin accessory sales, and by reacting more quickly to fashion directions. Chains that used to be 18 months behind the fashion curve are now only 30 days to 90 days behind, which most feel is about right. The discounter doesn't want to be a fashion leader; "We don't want to be out front of our customer," one executive explained.

Generally speaking, Target has taken over the high fashion end of the discount spectrum, with Kmart running a close second. Wal-Mart, which is not nearly as fashion-forward as the other leading chains, nevertheless has the most productive departments, and is the leading domestics dealer in the industry.

But other discounters have not given up the fight. There is a growing trend to develop more effective merchandising through improved signage, interactive videos to illustrate coordination options, and most importantly, improved fixturing.

For years, discounters have sold home fashions on fixtures developed for and more appropriate to products like hammers and board games. ShopKo, Ames and Kmart are all testing more upmarket presentations, borrowing approaches favored by both department stores and upscale but off-price specialty chains like Bed, Bath & Beyond and Pacific Linens.

Long term, such experimentation is necessary, as the rapid growth rate in this channel of distribution is certain to slow in coming years. And, discounters are unhappy with the low turn rate in the category (less than two full turns a year), and better merchandising is seen as the answer. And, finally, the constant erosion in price means that retailers now have to sell, for example, two towels for every one they sold a few years ago to keep dollar volume steady. To grow, retailers will have to find ways to step the customer up to better quality, higher price point goods.

Domestics $8.7 Billion	
Full-Line Discounters	$5.1B
Catalog Showrooms	—
Membership Warehouse	$1.0B
Specialty Discounters	$2.6B
Full-Line Discount Store Productivity	
Sales	$5.1B
Sales Per Store	$638,000
Dept. Size	3,600 Sq. Ft.
Sales Per Sq. Ft.	$177.08
Turns	3.1
Initial Markup	42.1%
Gross Margin	32.2%

Source: DSN research

More Discounters Follow Wal-Mart's Lead in Crafts

Discounter's share of the crafts category is projected to continue its steady climb in 1992 as keen pricing by all discounters and acquisitions by discount specialty chains chip away at what was once an industry predominated by full-priced independent retailers and Wal-Mart.

Until recently, Wal-Mart was one of the few discount chains that continued to offer a full-line crafts and fabric department in most stores even when others had all but dropped the category, leaving the chain with a near monopoly of discount crafts in the markets it served.

The next year is likely to see a similar acquisition pace as the last 12 months: Fabri-Centers of America acquired 18-unit New York Fabrics of Pleasant Hill and the 10-unit Giltex Corp. House of Fabrics acquired both the Fabricland and Fabric King chains. Northwest Fabrics & Crafts acquired the Crafts & More chain from Ames with plans to rename them Rainbow Bay Crafts.

The rebirth of yarn crafts, silk flower arranging, fabric painting, and home decor related projects like stenciling and quilts, has prompted an aggressive move back into the crafts category by four retail segments.

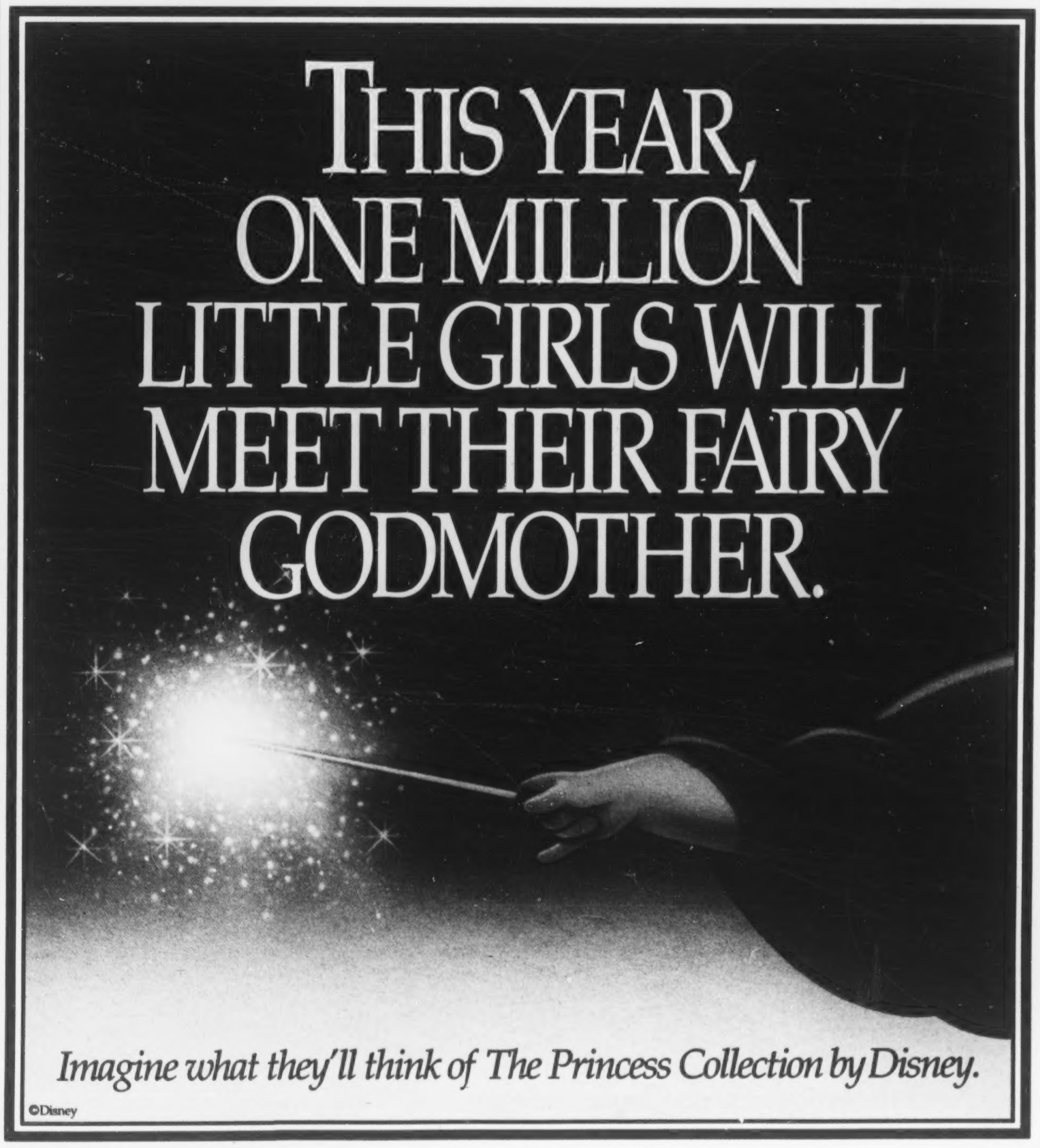
Full-line discounters like Jamesway and Ames, plus specialty discounters such as Michaels and variety chains like Ben Franklin are undoubtedly taking a few dollars out of Wal-Mart cash registers these days. And, lastly, home decor specialty chains like Myrtle Beach, S.C.-based Waccamaw, Jamesway's My House stores, Zellers' Linen's Etc. test store in Canada and a handful of similar chains are taking advantage of the synergies that exist between home goods and homemade home decor with the addition of silk flowers and other home decor/craft categories.

This year, many full-line discounters will be faced with the decision of whether to be in the crafts business or not. The sku-intensive category does not lend itself to dabblers, and some chains like

(Continued on page 71)

Crafts $4.7 Billion	
Full-Line Discounters	$2.5B
Catalog Showrooms	—
Membership Warehouse	—
Specialty Discounters	$2.2B
Full-Line Discount Store Productivity	
Sales	$2.5B
Sales Per Store	$313,000
Dept. Size	1,100 Sq. Ft.
Sales Per Sq. Ft.	$284.55
Turns	2.6
Initial Markup	41.9%
Gross Margin	33.8%

Source: DSN research



THIS YEAR, ONE MILLION LITTLE GIRLS WILL MEET THEIR FAIRY GODMOTHER.
Imagine what they'll think of The Princess Collection by Disney.
©Disney

Chains Develop Strategies to Boost Photo Sales

Discounters are re-evaluating their stance in cameras, film and accessories as they attempt to grow their business in an essentially flat photo market.

Some, like Wal-Mart, are utilizing on-site film developing as the centerpiece of a cross-merchandising strategy designed to build sales in higher margin accessories and special formats. Others, like Roses, have scaled back their selection of higher end SLR cameras in favor of adding less expensive point-and-shoot models that turn quicker.

The vendor trend of extending fashion looks to formerly basic products like photo albums and frames is neatly playing into the first strategy; while consumers' acceptance of single-use cameras as more than just a vacation product is a strong argument for the second strategy.

The newest mini- and micro-labs take up less space than ever before (thus boosting productivity per square foot) and apparently are inspiring additional purchases along with the quick film processing.

The list of discounters testing on-site labs of some kind (Noritsu, Fuji, Greytag are a few of the leading suppliers) includes Wal-Mart, Kmart and ShopKo. Warehouse clubs, as well, utilize on-site labs as an additional service department for their members.

Interestingly, on-site, one-hour developing business has not cannibalized revenues from discounters' traditional drop-off processing business. By installing the on-site labs, the retailers have raised the visibility of their processing services, so that more consumers think of these retailers when they have film that needs to be developed.

By making the department a focal point in its store, Wal-Mart and others have found an opportunity for cross-merchandising a wide range of ancillary products, including film, frames, batteries, and cameras. For example, a customer can drop off her film, do her household shopping and then return to pick up her prints, which are neatly packaged in a personalized photo album.

The extension of fashion to such basic products as photo albums is also showing up at more and more discounters. The plain brown-covered album, while still being sold, is being augmented by more fashionable covers with computer-generated fabric patterns and other distinctive looks. Wal-Mart is even selling photo albums with covers that match tabletop patterns sold in the store.

Another area in which fashion has made itself evident is in cameras. Neon colors and splatter paint designs proliferate among the low-end cameras sold by many discount chains.

Finally, single-use cameras have become the hottest selling area in the business. U.S. consumers purchased almost 15 million single-use cameras last year, an annual growth rate of 25% to 50% over the past four years. The addition of new, special features, such as panorama lenses, will likely create incremental sales of single-use products this year.

Looking to the future, the growing number of retirees should be a prime target of photography retailers. Now representing 12% of the primary shopping population, according to a recent study conducted for the International Mass Retail Association by Deloitte & Touche, retirees are one of the fastest growing segments of the U.S. population. Their "hot buttons" according to the survey include frequent sales and convenience.

On-site photo processing will appeal to this group because of their responsiveness to convenience. Discount stores should be very effective at drawing these consumers into their stores because they carry so many of the products they need, such as drugs and toiletries, greeting cards, specialty products geared to the mature consumer and pet supplies.

Photo[1] $3.6 Billion	
Full-Line Discounters	$2.9B
Catalog Showrooms	$0.3B
Membership Warehouse	$0.4B
Specialty Discounters	—
Full-Line Discount Store Productivity	
Sales	$2.9B
Sales Per Store	$363,000
Dept. Size	450 Sq. Ft.
Sales Per Sq. Ft.	$805.56
Turns	3.7
Initial Markup	21.1%
Gross Margin	15.6%

[1] Photo department includes cameras, film and supplies

Source: DSN research

Retailers Build Upon RTA Furniture Sales

The ready to assemble furniture category at full-line discounters was bolstered by the soft economy last year, as more consumers decided to try their hand at putting together a new wood-look utility cart for about $99 rather than paying hundreds of dollars for a solid wood model that would do the same job.

Improvements in RTA style and its ease of assembly are expected to win over more consumers in 1992.

Full-line discounters took a two-pronged approach to the RTA category last year. Chains expanded their assortments of opening price-point basics in 1991: bookcases and basic storage cabinets in medium oak finish were being promoted at nearly giveaway prices. At the same time, high-styled, gross margin-makers like juvenile furniture, entertainment pieces with video storage, and bedroom furniture in black, white and detailed oaks comprised the balance of the RTA assortment.

The lifestyle furniture department—including RTA and other furniture like bean bag chairs, bar stools, and jewelry armoires—went through an expansion at Kmart, a downsizing at Rose's and a facelift at Venture (as part of their new prototype presentation.) Next year will bring new merchandising improvements as leading manufacturers offer display systems to maximize the selling area while adding POP that helps makes the sale.

The potential for selling better quality, partially assembled RTA will become apparent this year as membership warehouse clubs and discount-oriented furniture stores become more aggressive in the category.

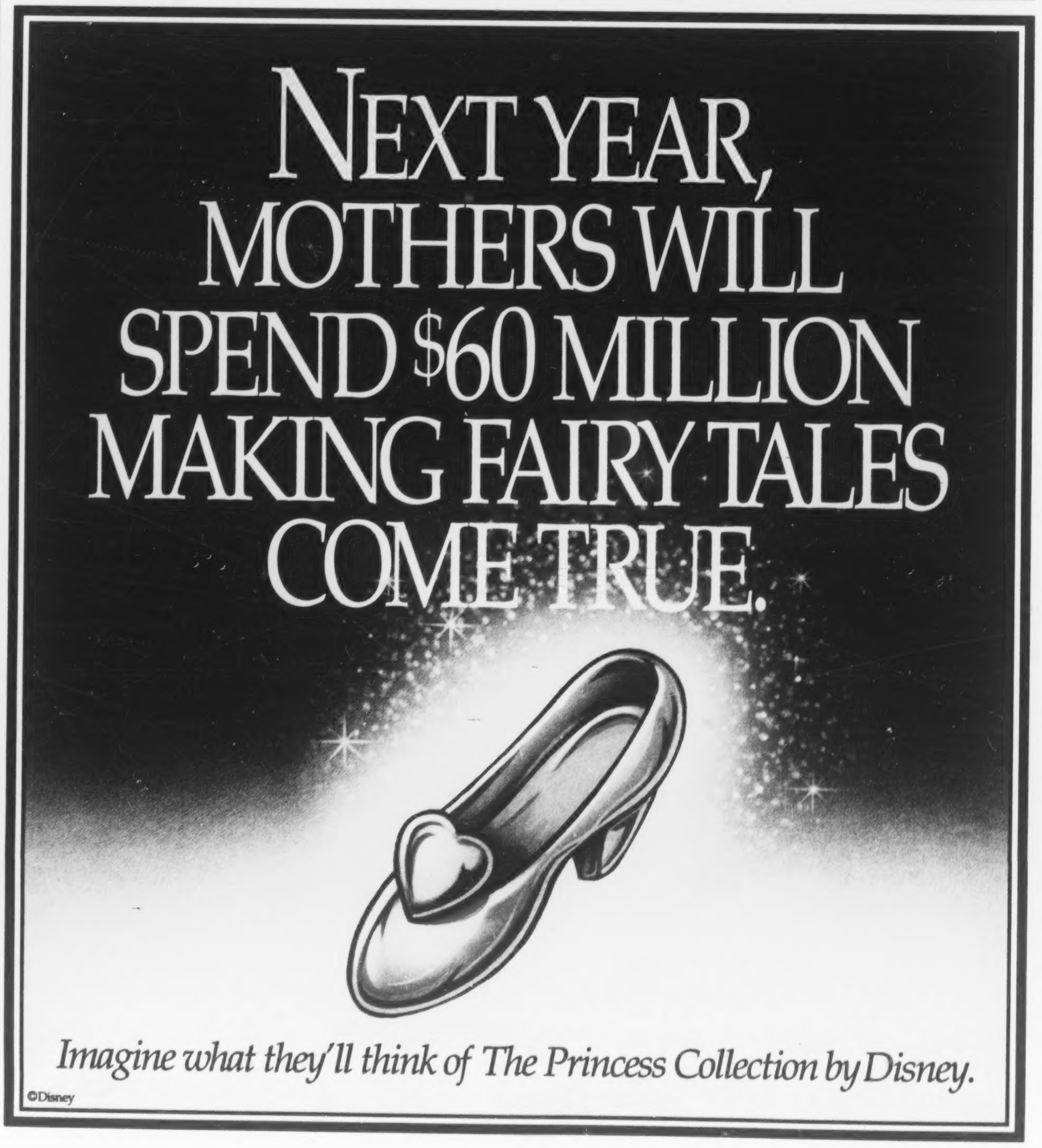
RTA Furniture $1.4 Billion	
Full-Line Discounters	$0.7B
Catalog Showrooms	$0.1B
Membership Warehouse	$0.2B
Specialty Discounters	$0.4B
Full-Line Discount Store Productivity	
Sales	$0.7B
Sales Per Store	$88,000
Dept. Size	500 Sq. Ft.
Sales Per Sq. Ft.	$175.00
Turns	NA
Initial Markup	NA
Gross Margin	NA

NA—Not available or not applicable

Source: DSN research

Catalog showrooms, despite their overall problems, continue to build their RTA business. RTA is a natural strength for catalogers since the format allows them to present fully accessorized room settings in both their stores and catalogs without needing to accommodate boxed stock like discount stores.

Chains like IKEA have turned out to be a mixed blessing for the category. When IKEA opened its first stores in the U.S., it was thought that the added spotlight on RTA would help discounters because consumers would become familiar with furniture assembled at home. But, until recently, IKEA had a hard time keeping its stores stocked. Customers were leaving empty-handed. The acquisition of the IKEA clone called STOR further burdened IKEA's supply lines. IKEA is working with U.S. manufacturers to help resolve the problem created by its heavy reliance on overseas suppliers.


NEXT YEAR, MOTHERS WILL SPEND $60 MILLION MAKING FAIRY TALES COME TRUE.
Imagine what they'll think of The Princess Collection by Disney.
©Disney

Discounters Go High-Tech With High-Ticket CE

Almost unnoticed—due to the high profile of consumer electronics specialty retailers, full-line discounters have quietly turned up the heat in the CE category.

Industrywide, discounters have upgraded their vendor mix, refixtured their departments, added state-of-the-art merchandising tools, and entered new, high-tech product niches.

The result, *DSN* estimates, will be yearly sales of $6.8 billion in 1992, with another $4.2 billion accounted for by warehouse clubs. That's $11 billion of a $32 billion industry moving through pure discount, low-service channels. Another $8.2 billion is sold through specialty discounters like Circuit City, and a bit over a half-billion is accounted for by the shrinking catalog showroom channel.

So, in 1992, about two-thirds of this industry moves through high-velocity discount channels.

And, unlike most specialty chains, discounters generally sell a preponderance of high-margin, low unit-cost accessories and software, which in turn generates high levels of profitability.

Until recently, discounters shied away from higher-end or high-tech products. The CE department tended to be heavy on no-name boomboxes, low-power rack systems, and low-end calculators. But it's not uncommon now to find products like Sharp's Wizard, laptop computers, laser printers, big screen televisions, cellular telephones, CD players, and other relatively high-ticket items in the average department. The relative trickle of upmarket goods has become a flood in the past year.

Consumer Electronics[1] $19.8 Billion	
Full-Line Discounters	$6.8B
Catalog Showrooms	$0.64B
Membership Warehouse	$4.2B
Specialty Discounters	$8.2B
Full-Line Discount Store Productivity	
Sales	$6.8B
Sales Per Store	$850,000
Dept. Size	2,200 Sq. Ft.
Sales Per Sq. Ft.	$386.36
Turns	3.8
Initial Markup	26.2%
Gross Margin	17.5%

[1] Consumer Electronics includes records and tapes

Source: DSN research

At the most recent Consumer Electronics Show, vendors reported heavy interest from discounters in what used to be considered esoteric product areas.

Franklin's electronic Baseball Encyclopedia, for instance, will appear in full line discounters once production increases, and manufacturers of 486 computers reported favorable discussions with major discounters.

The business products category will be a major growth area in the future. While the low-service environment may suppress personal computer sales, the potential for business software, furniture, peripherals like printers and fax machines, accessories like diskettes and storage boxes, and a host of other products is great.

Prerecorded Video $1.9 Billion	
Full-Line Discounters	$1.0B
Catalog Showrooms	—
Membership Warehouse	—
Specialty Discounters	$0.9B
Full-Line Discount Store Productivity	
Sales	$1.0B
Sales Per Store	$125,000
Dept. Size	150 Sq. Ft.
Sales Per Sq. Ft.	$833.33
Turns	4.5
Initial Markup	NA
Gross Margin	24.9%

NA—Not available or not applicable

Source: DSN research

Wal-Mart, for instance, is adding a computer software wall in virtually all departments that will rival the selection at specialists like Office Depot and CompUSA.

That wall could be the forerunner of a fully integrated home office department that will leverage the chain's amazing traffic.

Wal-Mart and other discounters have already pushed to the forefront of the sell-through video market, selling an estimated $1 billion worth of tapes in the past year.

A key here was the decision by Disney to release hit catalog titles like "Fantasia" and "101 Dalmations" at prices appropriate for the mass market (as low as $15 per tape, after rebate, and in a few loss leader situations, as low as $12). That turned the category from a collector's market, with average price points of $89.95 keeping all but video fanatics out of the loop, to an impulse item.

Other producers followed Disney's lead, and movies that have barely left the theaters, like "Wayne's World," are already on their way to retail shelves.

Discounters have also shifted brands over the last two or three years.

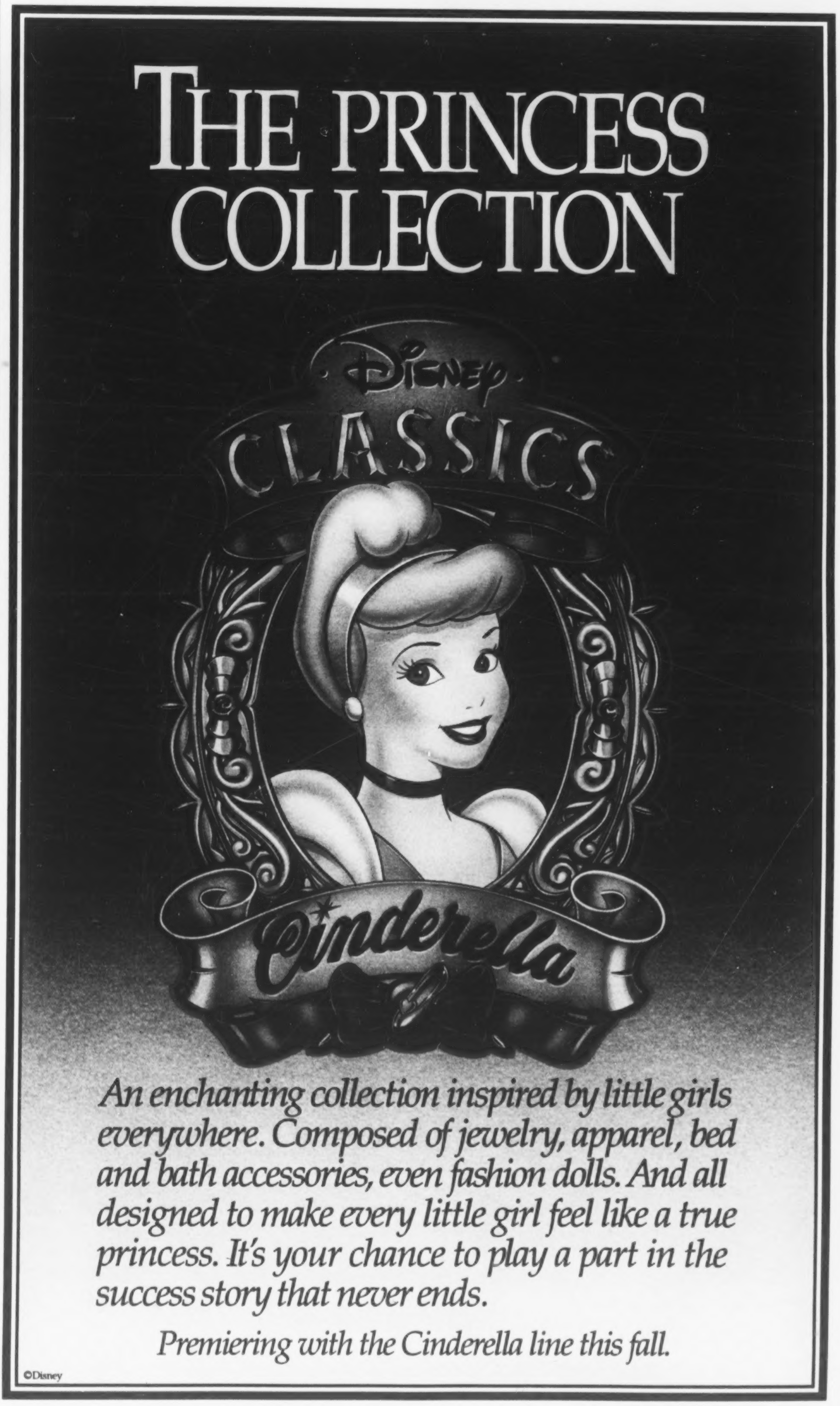
Previously, there were clearly established "discount brands," like Emerson and Yorx, that offered simple, easy-to-use and relatively low-performance goods at significant savings over higher-tech brands. For instance, Thomson would sell its lower-end CE goods to discounters, but not its more upmarket and desirable RCA brand.

Those days are over. The average discounter now stocks RCA, Sony, Panasonic, and a host of other high-profile brands that often were not available to them a few years ago.

The dollar potential of the channel is just too dominant to pass up anymore.

But to sell more expensive products, leading discounters have been forced to dial up both their merchandising

(Continued on page 71)


THE PRINCESS COLLECTION

An enchanting collection inspired by little girls everywhere. Composed of jewelry, apparel, bed and bath accessories, even fashion dolls. And all designed to make every little girl feel like a true princess. It's your chance to play a part in the success story that never ends.

Premiering with the Cinderella line this fall.

©Disney

Fashion-Forward Goods Key to Stationery Sales

Aided by the explosive growth of office supplies and the large infusion of fashion-forward merchandise, back-to-school/home office stationery sales should total $3.2 billion this year at full-line discount department stores.

Although sales have been fairly flat during the recession, basic school items are projected to remain strong again this year so avenues of opportunity may be opening up for retailers as early as Back-To-School 1992.

In children's arts & crafts, an explosion of new products are being offered from such companies as Crayola, Merigold, a Western Publishing company, and Rose Art, among others.

Also, typically mundane areas like pens and pencils have been jolted by new ideas, including entries by Pentech, Empire Berol, and FaberCastell, which emphasize design and innovation in pencil barrels. Advances in pen technology, via such companies as Zebra, Parker, Sanford, Pentel and Plus Corp. of America, plus increasing use of multipacks and upscale school supplies—which appeal to a discerning customer and which return greater profits to sellers—are cropping up in greater numbers.

To make the highly competitive and profitable stationery department hum like a well-oiled machine, retailers also are inclined to cut back on sku growth and concentrate more heavily on high volume, fast turning items, particularly in office supplies, to help them better compete with the office superstores. Concentrating on up-to-the-minute designs, packaging, pricing and displays play heavily on retailers minds.

Apart from basic stationery products like writing tablets, memo books, copy paper, etc., consistently strong performers in the stationery category continue to be fashionable designs and licensed products, which provide added value to many tried-and-true items.

What hasn't caught on yet despite valiant efforts by both manufacturers and retailers are recycled goods.

Consumers still appear unwilling to purchase recycled paper products that they perceive to be lower in quality and higher in price than virgin paper.

As the technology advances, however, a greater acceptance of recycled goods is likely, said Mike Sherb, marketing manager at Union Camp, school supplies and stationery division.

Noted Sherb: "The retailer wants to commit to this but the sell-through isn't there."

However, new products continue to hit the market in a relentless effort to bring consumers along the conservation path. Each of the major paper producers have recycled lines and are extending their programs. One such program, Save The Pond by Mead, is a line of recycled school supplies that feature the lovable Muppets offering environmental tips.

According to The Licensing Letter, retail sales of licensed merchandise based on characters totaled $12.4 billion in 1991, down slightly from 1990, but still 20% of the industry's $63.5 billion total.

Further, 10% of publishing/-stationery sales at retail is linked to licensed merchandise, greater than for sporting goods, health & beauty care, food/beverages and electronics/software, and just a hair smaller than toys/games (12%) and home furnishings/housewares (11%), according to TLL.

In some categories, however, publishing/stationery is a leading avenue for licensed products. Among them are:

- Products based on television properties, 25% of the $1.5 billion in sales last year;
- Licensed merchandise based on film properties, 17%, based on $2.1 billion in sales;
- Stationery based on sports properties 16% of $11.1 billion.

Licensed goods are just one way that sellers offer higher value items. Others include exclusive art (Lisa Frank), coordinated design programs stretched over a variety of products, and innovative design, among others.

For example, Mead's Five Star First Gear line of school supplies and accessories includes such items as backpacks and three-ring binders with storage pockets. Another of its lines, Vision Point, matches its holographic cover designs on notebooks with cases by W.T. Rogers.

This year's back-to-school season will be full of psychedelic designs (Stuart Hall's Fractals and mirror chrome covers by US Kids) and bright neons in items as diverse as clipboards (Saunders, S&W Products and Decorator House) fax and copy paper (Royal Lace).

Melding office supplies to meet specific consumer needs has begun to appear in the form of Stuart Hall's new Executive Suite. This is a line of office supplies designed for the professional woman with soft pastel covers on such items as address books, memo pads, personal notebooks and quad rule notebooks.

Overall, *DSN* estimates that stationery products continue to be among a store's most profitable departments.

With gross margins at 41.2%, stationery—including office supplies and greeting cards—earns the highest margins in a discount department store except for jewelry (43.9%).

While many individual retailers may claim turns above four per year, on the whole *DSN* estimates discounters in general get 3.4 turns each year in the stationery department, and annual sales per sq. ft. of $181.82. On the surface, the sales per sq. ft. number may not sound impressive—but individual items often sell for less than $1.

Stationery[1] $10.0 Billion	
Full-Line Discounters	$3.2B
Catalog Showrooms	—
Membership Warehouse	$5.2B
Specialty Discounters	$1.6[2]
Full-Line Discount Store Productivity	
Sales	$3.2B
Sales Per Store	$400,000
Dept. Size	2,200 Sq. Ft.
Sales Per Sq. Ft.	$181.82
Turns	3.4
Initial Markup	44.8%
Gross Margin	41.2%

[1] Stationery includes office supplies and greeting cards
[2] Includes office supply discounters

Source: DSN research

Discounters Go High-Tech With High-Ticket CE Items

(Continued from page 69)

and their service levels. Most now have manned departments, and have introduced expanded music selections and better display techniques to build up consumer excitement. Ames, for instance, is testing the PIC interactive video music kiosk, which at the touch of a screen plays a 30-second clip of the video from a new music release.

Kmart has recently tested a Sharp projection television in some of its newer stores, but more as a "statement" than as an attempt to create significant sales. Still, the amount of high technology finding its way onto discounter shelves is impressive. Price points of products that would have been prohibitively expensive just a few years ago, like printers, 35mm cameras, camcorders, video game systems, and many more, have now receded to the point that consumers can comfortably afford them without special credit arrangements, a long time advantage for competitors like Sears, Ward and many superstores.

SONY
SONY
SONY
SONY
SONY
SONY
off

***Discounters like Wal-Mart** (above) and Kmart have started to upgrade their consumer electronics selections by carrying upmarket goods.*

(DSN photo)

And, finally, vendors are looking more favorably at discounters because of their access to the female shopper. Overall, women are now much more important to the consumer electronics industry than was true in the past. WORKplace, for instance, recently reported that women were responsible for some 40% of personal computer sales, a steep rise.

Memtek is attempting to reach the female consumer with a line of Memorex-brand mini, micro and portable audio systems designed to sell strictly through the mass market. "Women are very comfortable with the Memorex brand," a company spokesman noted at the introduction.

Superstores have long intimidated women for the same reason that car dealerships do: high pressure salesmen, research shows, extract a premium from female customers, who are loathe to battle the price down. Self-service environments are more sex-neutral, and women know it. So, vendors who wish to grow their overall market are going where the women are, discount stores.

Retailers Gain in Crafts Market

(Continued from page 65)

Rose's have decided to reduce the department size, while Target, on the other hand, is said to be evaluating an expansion of the category.

While full-liners are deciding whether crafts are worth the space and attention the category demands, specialty chain leaders will be buying up smaller craft chains and opening stores at an eye-popping rate in a land race for market share in this underdeveloped specialty niche.

DSN's 1992 projections for the crafts industry are conservative, and assume that there will be no major new players entering the crafts market.

If membership warehouse clubs decide to sell craft supplies to independent retailers (in the form of a catalog with minimum order requirements—probably not as goods stocked on warehouse shelves), clubs could become an important factor in the crafts equation, and could ultimately put some smaller crafts distributors out of business as well.

The low levels of competition—in most markets—for the fashion-sensitive crafts category allows retailers to earn gross margins in the mid-'30s, or approximately the level of other fashion categories such as apparel and domestics.

Aging Population Puts New Spin on H&BC

__Jamesway's new prototype__ located in Claymont, Del., features a display of Cane & Able home care products for the older or disabled consumer. (DSN photos)

Consumers are increasingly shopping mass merchandisers for their health and beauty care needs.

The market share for mass merchandisers has been rising steadily in the last few years and will likely continue to do so in the coming year.

Both large chains like Kmart and smaller regional retailers such as Jamesway are working on growing their H&BC sections.

Changing demographics, particularly the general aging of the American population, will probably be one of the strongest influences in the merchandise selection and promotional strategies at discounter H&BC departments in the years ahead.

There are already signs, confirmed by retail dollar sales, that the older consumer is shopping for H&BC differently.

Face creams, lotions and moisturizers were one of the leading products in the category for 1991. In addition, sun protection products that, along with protection from sunburn also help to delay the sun's aging process, were also a huge category at retail.

In fact, these types of products are increasingly part of the beauty routine with cosmetics. At chains such as Kmart, efforts are being made to display these items closer together.

Hair care products, particularly coloring kits may also benefit from an aging, and graying, population.

Another sign that this change in demographics is influencing the department is the advent of home health care products. Jamesway, Secaucus, N.J., was one of the first to prominently feature the new Cane & Able line of home care products.

The new Jamesway prototype, in Claymont, Del., featured items such as tub bars and clamps, magnifying glasses and jar openers for an older or disabled user.

On the other end of the spectrum, children are an important market segment for H&BC items. This has been fueled primarily by licensing opportunities. The latest to join the fold is Batman, which Tsumura International is marketing under its Kid Care label of bubble bath and mini soaps.

Another pertinent fact about the children's market: the rising birth rate.

With more than 4 million babies born in 1991, retailers can expect to sell plenty of diapers, baby lotions, sun screens, powder and other accessories.

In conjunction with the birth rate surge are higher sales of early pregnancy tests, a product category which was named as one of A.C. Nielsen's "hot" sellers list for the mass market.

These new parents are also more aware of the harmful effects of too many chemicals and may be the prime age group that will sustain a steady increase in environmentally safe products.

Procter & Gamble recently announced that it would replace all its standard Pampers and Luvs brands of diapers with newer ultra-absorbent versions. The new diapers use much less material, according to P&G. The significant thing about this development is that P&G is actually replacing the diapers it has in stores now. The new versions will be at retailers starting this fall.

Del Laboratories' Naturistics line is already featured in a bold display in a number of discount stores.

Brands such as Fruit of the Earth and Natural Glo may gain momentum as the idea of an environmentally safe beauty regimen becomes standard.

As mass merchandisers do more micro-marketing, other important target areas also become profit niches if treated correctly. Ethnic cosmetics and hair care products, for instance, are being emphasized by a number of major manufacturers. Last year, Maybelline became one among the first mainstream, volume cosmetic manufacturers to introduce a line of cosmetics for the ethnic customer.

In H&BC, particularly hair care products, brands such as Soft Sheen and Dark & Lovely are doing well.

Over-the-counter drugs are another hot item for mass merchandisers. As many prescription items are approved for OTC sales, many discounters find they compete well on price with conventional drug stores.

In fact, it is one of the advantages of Kmart's reorganization of its H&BC division. With both pharmacy and H&BC under one buying division, the chain can react quickly in a fast-changing prescription market.

The two largest full-line discount stores, Kmart and Wal-Mart, have each made significant inroads towards increasing the number of pharmacy departments in their stores.

According to A.C. Nielsen's study of the mass market H&BC area, the number of prescription departments in the mass market actually declined in the first half of 1991. However, this was due to a myriad of store consolidations.

With expansion for pharmacy planned for both Wal-Mart and Kmart, the number of departments will probably rise significantly during 1992.

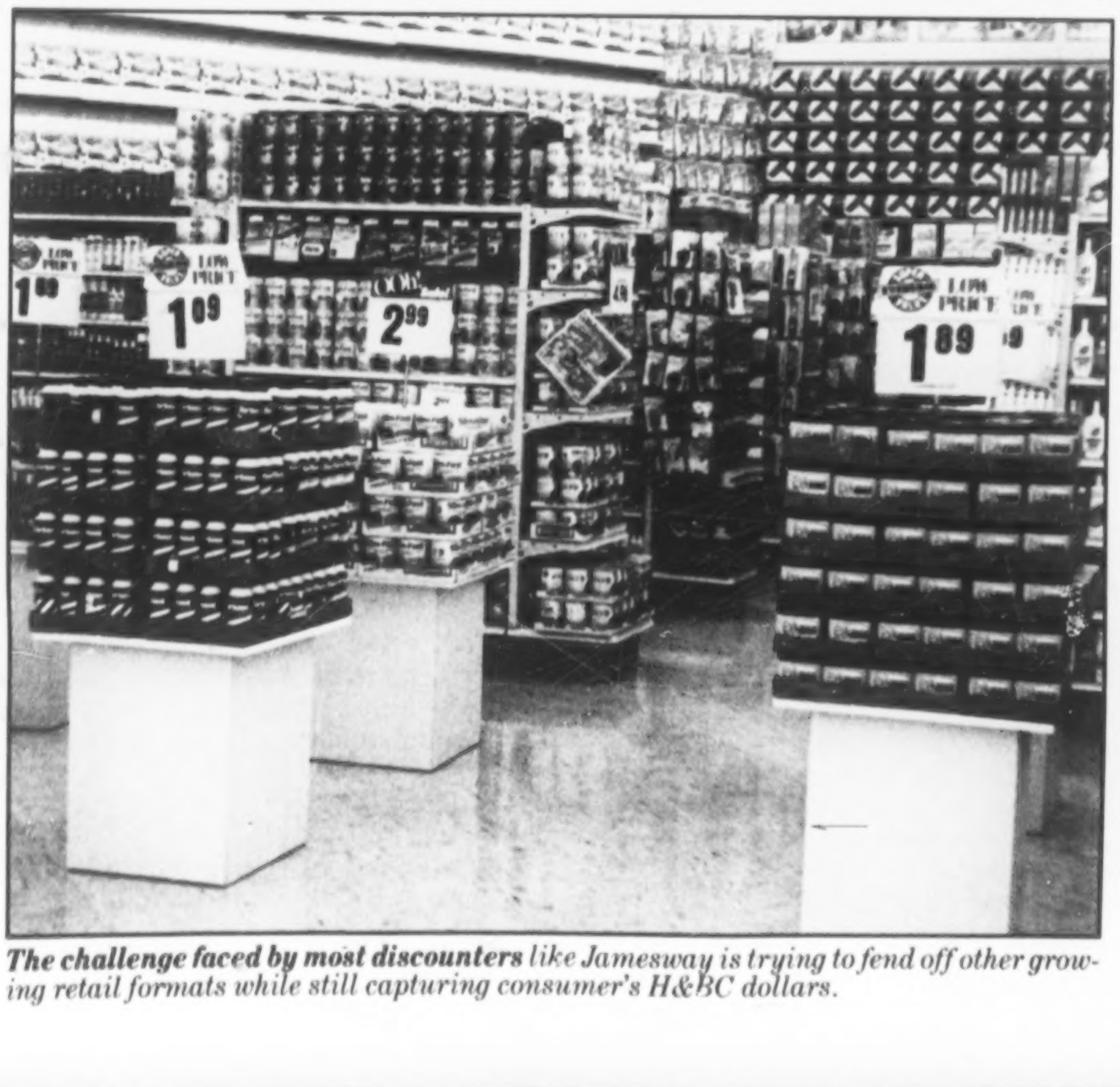
H&BC is another retail category that may have a shakeout as new retail formats grow. Full-line discounters may find they have more competition in the marketplace. They have more than just traditional drug stores to consider.

More apparel off-price stores are getting into the act offering not just cosmetics, but lotions and moisturizers as well.

Deep discount drug stores, including hard-to-define hybrid formats like Phar-Mor, are taking a bite out of both conventional drug outlets and mass merchandisers.

The latest challenge is the membership warehouse. Some commodity items such as feminine hygiene products, aspirin and shampoo do very well in the clubs in their distinctive mega-size packages.

Discounters' challenge is to find a way to capture consumer H&BC dollars while fending off these other growing retail formats.



__The challenge faced by most discounters__ like Jamesway is trying to fend off other growing retail formats while still capturing consumer's H&BC dollars.

Pharmacy $3.6 Billion	
Full-Line Discounters	$2.75B
Catalog Showrooms	—
Membership Warehouse	$0.7B
Specialty Discounters	$0.2B[1]
Full-Line Discount Store Productivity	
Sales	$2.75B
Sales Per Store	$344,000
Dept. Size	600 Sq. Ft.
Sales Per Sq. Ft.	$572.92
Turns	NA
Initial Markup	NA
Gross Margin	NA

[1] Includes deep discount drug stores

NA—Not available or not applicable

Source: DSN research

Health & Beauty Care $10.2 Billion	
Full-Line Discounters	$6.2B
Catalog Showrooms	—
Membership Warehouse	$1.7B
Specialty Discounters	$2.3B[1]
Full-Line Discount Store Productivity	
Sales	$6.2B
Sales Per Store	$775,000
Dept. Size	2,400 Sq. Ft.
Sales Per Sq. Ft.	$322.92
Turns	5.4
Initial Markup	20.8%
Gross Margin	16.1%

[1] Includes deep discount drug stores and other specialty discounters

Source: DSN research

Numbers Paint Upbeat Picture of '92 Toy Sales

With the help of such products as trolls, Barbie and high pressure water guns, the toy industry is hopeful sales in 1992 will surpass 1990 and 1991 levels.

Some early reports from both manufacturers and retailers alike paint a more optimistic picture than last year at this time. Also, last February's Toy Fair was more upbeat than the 1991 event, leading many participants to predict good toy sales this year.

Already, Mattel and numerous discount retailers have reported that this year's Barbie offerings are a hit, especially Totally Hair Barbie. Laramie and others producing high-pressure water toys are ringing up record sales despite a few isolated incidents of violence stemming from them. Trolls, those whimsical creatures with brightly-colored hair—now clothed as opposed to 30 years ago when they were always sold naked—are super hot at many price points. And 16-bit video games are reportedly good sellers wherever they are offered.

Unfortunately, in the midst of the upbeat news about specific toy items is the near collapse of the specialty toy retailer segment, which is in the process of losing another player.

Child World, on the ropes with its Chapter 11 bankruptcy filing, is trying to merge itself into the Lionel Kiddie City operation, which also is in Chapter 11. Should Child World's efforts fail, the now greatly streamlined retailer would be forced to liquidate. Lionel seems to be in a better financial position, as it has secured working capital from its banks.

The obvious victor in this sector is the giant, Toys "R" Us. However, the weak national economy in its second year of recession has not left Toys "R" Us entirely untarnished. Also, last Christmas' drastic price-cutting campaign and inventory clearance program at Child World caused profits to erode at the No. 1 toy chain.

No. 2 toy chain, Kay Bee, squeezed between the big and the small, produced erratic earnings growth over the past few years. Reliance on mall traffic, where most of its stores are located, also has proved troublesome during this recession. Growth at this chain will doubtless come from further developing its freestanding Toy Works division.

Assuming even greater dominance in the toy business are discount retailers, particularly Wal-Mart and Kmart.

In fact, toy sales through Wal-Mart discount department stores were estimated to be 10.2% of total industry sales in 1991, up from 8.4% in 1990, according to various industry sources.

In fact, Port Washington, N.Y.-based The NPD Group's Toy Market Index, which ranked the top 20 retail outlets for toys, which accounted for 65.7% of all toy sales last year, reported that Toys "R" Us led the way with a 19% share in sales, up from 17.8% in 1990.

Kmart, with a 7.1% share of the toy business, lost market share in 1991, according to reports. In 1990, Kmart rang up 7.6% of toy industry sales.

In all, discount store retailers accounted for 11 of the top 20 toy outlets in 1991.

After Toys "R" Us, Wal-Mart and Kmart, market share for 1991 broke down as follows:

- Target, 4.9% share in 1991, up from 4.4% in 1990;
- Kay Bee, 4.6%, up from 3.9%;
- Child World, 3.2%, down from 4.6%;
- Sears, 2.4%, down from 2.5%;
- Service Merchandise, 1.8%, down from 2.2%;
- Lionel Kiddie City, 1.7%, down from 1.9%;
- Hills, 1.5%, down from 1.9%;
- Ames, 1.4%, down from 1.9%;
- JCPenney, 1.3%, down from 1.6%;
- Radio Shack, 1.0%, unchanged;
- Bradlees, 0.9%, unchanged;
- Caldor, 0.8%, up from 0.7%;
- ShopKo, 0.8%, down from 0.9%;
- Best Products, 0.8%, unchanged;
- Venture, 0.8%, unchanged;
- Meijer, 0.8%, down from 0.9%;
- U.S. Military Stores, 0.7%, up from 0.4%.

Toys[1] $11.2 Billion	
Full-Line Discounters	$5.0B
Catalog Showrooms	$0.3B
Membership Warehouse	$0.3B
Specialty Discounters	$5.6B
Full-Line Discount Store Productivity	
Sales	$5.0B
Sales Per Store	$625,000
Dept. Size	3,000 Sq. Ft.
Sales Per Sq. Ft.	$208.33
Turns	3.1
Initial Markup	31.2%
Gross Margin	23.7%

[1] Toys includes wheel goods and video games

Source: DSN research

Juvenile Products[1] $2.6 Billion	
Full-Line Discounters	$0.8B
Catalog Showrooms	$0.4B
Membership Warehouse	$0.7B
Specialty Discounters	$0.7B
Full-Line Discount Store Productivity	
Sales	$0.8B
Sales Per Store	$100,000
Dept. Size	1,000 Sq. Ft.
Sales Per Sq. Ft.	$100.00
Turns	3.8
Initial Markup	33.1%
Gross Margin	25.4%

[1] Juvenile products include furnishings, car seats, strollers and baby needs

Source: DSN research

These market share results for 1991, like the 1992 sales and profitability projections made by *DSN*, include sales of video games. *DSN*'s projections also include sales of bicycles.

This year, *DSN* is projecting toy sales through full-line discount department stores to total $5 billion, or one-third of all toy sales at both discount and full-priced retailers.

In general, the average discount department store maintains a 3,000 sq.-ft. toy department during the peak selling season, jammed with as many of the TV-advertised toys as can be crammed onto the shelves.

As a result, sales per store in 1992 is forecasted to be $625,000. Annual sales per sq. ft. of space in 1992 is projected to reach $208.33, greater than 16 of the 26 specific merchandise categories evaluated in this report.

Annual turns, because of the seasonal nature of the toy business, fall a bit to 19th place, ahead of only cosmetics and fragrances, jewelry, crafts, lawn & garden, hardware, sporting goods, and tying with domestics, at 3.1 turns in 1992.

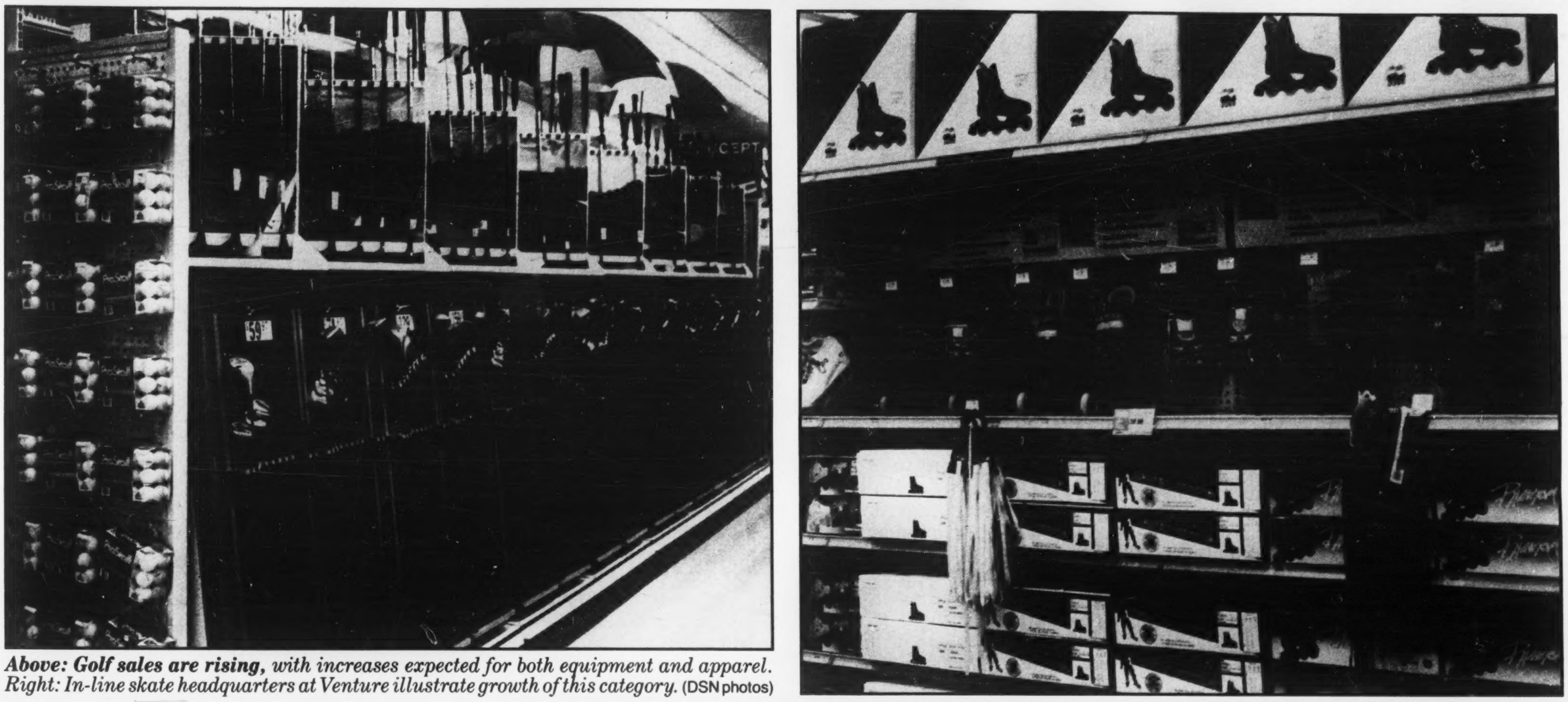
Initial markup on toys is 31.2%. Discount department stores, however, apply gross margins of about 23.7%, a necessity in the everyday low price philosophy of the industry.

POWER GLOVE
Nintendo

***Video games, for years strong sellers** at discounters, are getting a boost with the new 16-bit format, now popular step-up items for 8-bit afficionados.* (DSN photos)

***Battery-operated and foot-powered vehicles** are popular items with youngsters, but sales have suffered in the recession.*

***Wal-Mart's Turnersville, N.J., store,** opened last fall, features individual signs with full descriptions of each bike on display.*



Above: Golf sales are rising, *with increases expected for both equipment and apparel. Right: In-line skate headquarters at Venture illustrate growth of this category.* (DSN photos)

In-Line Skates, Street Hockey Puck Hot Sellers

In-line skates will be the star performer in sporting goods this year in terms of sales growth, as industry sources predict sales of this product to rise 40% in 1992.

About 1.7 million Americans skated on in-line skates at least 25 days in 1991, according to the Sporting Goods Manufacturers Association. The growth rate for in-line skates—pioneered by Rollerblade—is four times that of the 4% projected growth rate for sporting goods equipment overall through all retail channels.

Licensed apparel continues to be one of the three hottest categories in sporting goods. Any jacket, sweatshirt, T-shirt or cap with a local college or professional team logo on it is selling strongly

Including apparel and athletic shoes, total sales also will gain 4% in 1992, said the SGMA. Excluding apparel and shoes, *DSN* projects that discount sales of sporting goods will total $7 billion in 1992, with the greatest percentage of sales (54%) going through discount department stores. Specialty sporting goods retailers will account for about 33% of total discount sporting goods sales this year.

The boom in in-line skate sales has also generated additional add-on sales of protective gear, knee and elbow pads and helmets, that can cost more than the skates themselves.

Archery and soccer also will produce solid results in '92. Total sales of archery equipment will increase 25% this year, while soccer, which requires little equipment save for balls, goals and shin pads, will increase 9%.

A new category that discounters dominate, water sport shoes, should produce a 24% gain in sales.

In apparel, sales of golf, downhill skiing and tennis clothing are expected to grow more than twice as fast as the equipment for the respective sports. That suggests a great deal of cross selling to those who want to look the part, even if they spend little time on the golf course, tennis court or ski slope.

Sales of golfing apparel will rise 10% while golf equipment sales will gain 3%.

Sales of downhill skiing apparel will increase 8%, compared to 2% for equipment. Sales of tennis togs will gain 7%, compared to 4% for rackets and balls.

Licensed apparel continues to be one of the three hottest categories in sporting goods. Any jacket, sweatshirt T-shirt or cap with a local college or professional team logo on it is selling strongly.

Franklin Sporting Goods is even licensing its street hockey gear through the National Hockey League.

In new equipment, a street hockey puck from Sun Hockey called the Hot Puck appears to be selling strongly and will make its formal debut at the 1992 show next month at the National Sporting Goods Association. The Hot Puck features tiny wheels that the manufacturer claims "turns concrete into ice."

In terms of dollar volume, exercise equipment will be the bully on the block in '92, with a 6% gain.

Within the category, stair climbers, cross country skiers and treadmills showed the strongest percentage gains in terms of frequent participants over the past three years.

Stair climbers came out of nowhere to produce a 741% gain from 1988 to 1991. Some 2.6 million Americans exercised on them at least 100 days in 1991. The use of cross-country skis grew 167% in the same three years, with 900,000 frequent users, and treadmill exercise grew 126% with two million users.

In total, the SGMA estimates that 43.4 million Americans engaged in fitness activities at least 100 days out of 1991. Female participants outnumbered males 22.3 million to 21.7 million.

Wilson also got into the exercise field by licensing its name for a line of pricey home exercise equipment.

Flex gyms continue in popularity because of their relatively light weight and low price, in comparison to weight stack gyms. As examples of new flex gyms to hit the market, CSA introduced this year two new licensed flex gyms from Gold's Gym that will retail for $299 and $499. In comparison, its weight stack gyms, part of a complete line of licensed exercise equipment from Gold's are intended to retail for $499 and $599.

Sporting Goods $7.0 Billion	
Full-Line Discounters	$3.8B
Catalog Showrooms	$0.2B
Membership Warehouse	$0.7B
Specialty Discounters	$2.3B
Full-Line Discount Store Productivity	
Sales	$3.8B
Sales Per Store	$475,000
Dept. Size	2,550 Sq. Ft.
Sales Per Sq. Ft.	$186.27
Turns	2.6
Initial Markup	33.1%
Gross Margin	24.8%

Source: DSN research

Chains Shift Gears to Counter Automotives Decline

With its share of the total automotive parts and accessories retail market forecasted to dip to 21% by 1995 from 24% last year, the discount store industry is turning to computerized parts kiosks and warehouse-style displays in an attempt to counter the decline.

Adding to the urgency is the lack of substantive growth—if not outright decline—in the do-it-yourself market and slim margins for retailers in the face of continued price competition.

In a bid to keep customers from wandering over to the nearest auto parts store clerk for help, Wal-Mart has completed the rollout to all 1,750 stores of a computerized kiosk that makes it easy for customers to call up parts numbers for all parts Wal-Mart stocks.

In addition, the kiosk is intended to boost add-on sales by suggesting cross merchandising parts, such as a PVC valve when a customer punches up an oil filter on the computer screen.

A printer spits out a paper record of parts numbers, both requested and suggested.

Its Sam's Club division also uses an electronic kiosk to answer customers' questions about which size battery or tire they need for their cars.

Automotives $12.8 Billion	
Full-Line Discounters	$5.6B
Catalog Showrooms	$0.1B
Membership Warehouse	$1.7B
Specialty Discounters	$5.4B
Full-Line Discount Store Productivity	
Sales	$5.6B
Sales Per Store	$700,000
Dept. Size	2,100 Sq. Ft.
Sales Per Sq. Ft.	$333.33
Turns	3.3
Initial Markup	29.2%
Gross Margin	21.4%

Source: DSN research

AC/Delco has developed a parts kiosk just for the ignition parts and batteries it makes, and B.J.'s Wholesale Club is the first discounter to begin testing it. Target also is said to be interested in trying out the AC/Delco kiosk in light of favorable reports coming out of a test in Trak Auto Parts stores.

Kmart's five-store test of an automotives kiosk provides a computer bank listing all parts the chain carries, as well as current prices.

In another automotives merchandising move, Pep Boys is trying to capitalize on the popularity of warehouse clubs by switching to a new prototype that lends a warehouse look to its conventional-size stores at minimal cost.

The new look features unfinished concrete floors and unfinished ceilings, making the stores appear larger. The new prototype virtually eliminates backroom storage, leading to more massive presentation of tires in warehouse racking and the bulking out of cased goods on the sales floor.

Warehouse merchandising of automotives got another vote of confidence when Auto Source, the warehouse store chain that Canadian Tire launched in Indianapolis last year with three stores, opened three more units this year. Auto Source is looking for 12 to 15 more units of 47,000 sq. ft. in '93.

But not all automotives specialty chains are running smoothly. Auto Giant and Auto Club, two other warehouse auto stores, both have declared Chapter 11 bankruptcy. Auto Depot closed its single unit in Sacramento, Calif., while Auto Giant closed one of three units.

In a branded tire merchandising move, Kmart took on a line of Michelin tires developed exclusively for the discount store industry, as well as Kelly-Springfield tires. Michelin controls Kelly-Springfield through its ownership of its parent, Goodyear Tire & Rubber.

To keep customers from wandering to the nearest auto parts store clerk for help, Wal-Mart has completed the rollout of a computerized kiosk that makes it easy for customers to call up numbers for all parts it stocks.

To expand its tire offerings, Wal-Mart took on Douglas, a budget brand of Kelly-Springfield. And Sam's Club was the first in the wholesale club industry to take on a special line of Michelin tires developed exclusively for clubs.

Big Three Discounters Each Take a Different Hardware Tack

Discounting's Big Three chains are taking widely divergent paths in hardware/home improvement merchandising.

The biggest hardware development in discounting to look for in 1992 will be Wal-Mart's continued introduction of a complete line of private label hardware marketed under the name Popular Mechanics.

Under an exclusive licensing agreement with *Popular Mechanics*, a Hearst magazine that is a bible to serious home and auto repair buffs, Wal-Mart will introduce over a two-year span hundreds of skus, including: mechanics hand tools, tool boxes, vices, hammers, work belts, aprons, nails, nuts, bolts, extension cords, small electrical supplies such as switches, receptacles and wall plates, and plumbing supplies such as toilet balances and faucet repair parts.

The licensed line replaces an abortive attempt to develop a new private label brand name from scratch, called Promark. The Promark name appeared on a short-lived line on 11 skus of mechanic hand tools, including wrenches and screwdrivers.

Wal-Mart is shipping Popular Mechanics handtools as the discontinued Promark items sell through.

The Popular Mechanics line comes with two built-in advantages: a name well-known among the 1.6 million subscribers to the 90-year-old magazine and a testing program.

To protect its image, *Popular Mechanics* is requiring Wal-Mart to submit for testing every hardware item that will carry its name.

The first items submitted for testing by the magazine's independent laboratory were mechanics hand tools. They were tested against Sears' Craftsman private label line and performed as well. Other hardware items, such as toilet repair parts, performed properly for their intended use, although no nationally known brands were available for direct comparison.

As do Craftsman tools, Wal-Mart's Popular Mechanics tools carry a lifetime guarantee, but cost about half as much.

__Caldor and other discounters__ are paring their hardware mix, removing slow-moving skus.

Hardware[1] $13.6 Billion	
Full-Line Discounters	$3.8B
Catalog Showrooms	$0.1B
Membership Warehouse	$1.4B
Specialty Discounters	$8.3B[2]
Full-Line Discount Store Productivity	
Sales	$3.8B
Sales Per Store	$475,000
Dept. Size	3,000 Sq. Ft.
Sales Per Sq. Ft.	$158.33
Turns	2.6
Initial Markup	35.2%
Gross Margin	27.8%

[1] Hardware includes paints, tools, and home improvement

[2] Includes home center warehouses and other home improvement discounters

Source: DSN research

To make sure its customers get the point, Wal-Mart began carrying the *Popular Mechanics* magazine this spring at about a 20% discount from its $1.95 price.

At least for now, the Popular Mechanics line won't include either paint or power tools. In paint, Wal-Mart has switched to brand names, such as Glidden in about half its stores and Dutch Boy Kem-Tone in the other half.

As a control, however, it continues to carry its Wal-Mart brand private label paint in about 200 stores.

Rather than take as profits the higher margins from its expanding offerings of private label goods, Wal-Mart will use them to subsidize the prices of nationally branded goods, further enhancing its image as the lowest priced merchandiser of national brands, one analyst predicts.

Kmart also has made a major decision in the hardware and home repair products arena: shutting its 327 in-store Home Centers when it remodeled or relocated existing stores.

In a corporate policy decision, the space once devoted to home center merchandise, such as storm doors and insulation, was given to other departments.

The stores that had home centers lost 40% to 60% of the space devoted to hardware and home repair lines, but the space that was devoted to hardware remained unchanged for the other remodeled units.

But chainwide, Kmart pared down its assortment of slower-moving skus in hardware, which enjoys at best only 2.6 turns in the discount store industry, and got out of some fringe lines of hardware.

Kmart also totally redid its paint program, eliminating private label paint and switching to all national brands. It now calls its paint department, "America's Paint Store."

In a major vendor consolidation, Kmart gave all its lighting business to Catalina since last year, whereas it previously sourced from five vendors.

Taking up the home center slack, Builders Square introduced earlier this month a new 125,500-sq.-ft. prototype named Builders Square II in the Sawgrass Mills off-price outlet mall in Sunrise, Fla. The new prototype also houses the Idea Center, an upgraded version of its Decor Center.

Target, in contrast, in its Greatland concept store continues to trim its hardware selection to the bare essentials necessary for the simplest of home repair projects. In a Greatland, shoppers are apt to miss the hardware department completely if they blink when strolling past.

Most discounters are taking the Target tack of paring hardware offerings so they can devote additional space to fashion apparel and home goods.

Discounters Eat Away at Supermarket Food Sales

Committed to growing *the food business at its stores, like this one in Sayville, N.Y, Kmart will fuel the spread of food into discount outlets.*

Grocery sales at discounters will continue to grow at a healthy pace in 1992. In fact, the expansion of general merchandise retailers into supermarket product categories has been so rapid that it has caused a great deal of controversy within the food industry.

The food operations of discount stores and deep discount drug stores, in addition to the explosive growth of membership warehouse clubs, have triggered major changes in the overall food retailing industry. Faced with this new competition, supermarkets have countered with charges that non-grocery formats (they call them "alternative store formats") can offer lower prices than traditional grocery stores because they receive better prices, terms and deals from manufacturers.

However, according to a study conducted by the Food Marketing Institute, and unveiled at the supermarket trade group's annual convention this year, that analysis is a major misconception. Instead of getting favorable deals, discount chains and clubs utilize specific merchandising and operational systems that allow them to keep costs low, and result in lower prices.

The growth of food sales at discount chains is most easily illustrated by a look at Wal-Mart, which leaped into the food business in 1983 when it opened Sam's Wholesale Club. Today, Wal-Mart runs the largest wholesale club operation in the nation (Sam's recorded $9.4 billion in sales in 1991), is blitzing the countryside with new Wal-Mart SuperCenters (nearly 20 combination general merchandise and food stores are expected to be in operation by the end of the year), is a major food distributor through its McLane subsidiary and is building the food business at its core of some 1,700 discount stores.

Such growth has many retail observers predicting that Wal-Mart will be the nation's largest food retailer by the year 2000.

Kmart, with its own wholesale club arm (Pace), its own supercenter concept (Super Kmart Center) and its own commitment to growing the food business at its discount stores, will also fuel the spread of supermarket sales into general merchandise outlets.

While candy and snacks had a relatively flat year at discount chains, sales should bounce back this year due to several new product introductions and more sophisticated seasonal selling strategies on the part of the major retailers.

A study conducted by Leo J. Shapiro & Associates for *DSN* earlier this year revealed that 34% of consumers made their last candy and/or snack purchase at either a discount store, warehouse club or drug store. Wal-Mart was the market share leader among the non-grocery stores, with 15% of total last purchases of candy and snacks, followed by Kmart, 8%, Meijer, Phar-Mor, Walgreens and Sam's Club, all tied with 4%.

Packaged groceries and household cleaners and chemicals, which really took off at the membership clubs, also should achieve strong success at discount chains this year.

A recent study by *DSN*'s *Food Merchandising* quarterly magazine revealed that nearly six out of 10 shoppers are now going to discounters and warehouse clubs for convenience packaged food products. And one of the biggest growth areas for discounters, according to the survey, is microwaveable prepared foods. Twenty percent of consumers purchased microwaveable prepared foods at clubs and mass merchants last year, spending an average of $177 over the year on such products.

The new EDLP (Every Day Low Price) strategies adopted by Procter & Gamble this year, and being considered by other suppliers of household goods, will tend to level off the peaks and valleys of inventory demand. This does not please retailers, particularly supermarket chains, that depend upon a high/low pricing strategy to draw traffic. However, discounters and wholesale clubs are likely to be very receptive to manufacturer EDLP policies, which will pose more problems for wholesale distributors and grocers.

Unfortunately, environmental concerns have failed to open vast new sales opportunities for retailers. Nevertheless, a general heightening of interest in ecology is resulting in products that are less harmful to the environment.

Pet food and accessories sales are also expected to outpace overall average growth. The action here is twofold: bulk food in large-size bags and new gourmet or extra-nutritious formulations that have been successful in supermarkets and are now making their way into the discount formats.

The discount store beverage business is also poised to bubble up. Target is the first of several discounters expected to be adding refrigerated cases to sell more single serve bottle, can and carton soft drinks. And juice sales are growing at discounters also.

Warehouse club food figures are buttressed by a relatively new element: fresh meat, baked goods and produce. The introduction of these new areas is sweeping the club industry and is causing even more concern among traditional supermarket operators. In addition, even some discounters may join the perishables act, with Caldor and Venture selling frozen steaks in special Memorial Day and Fourth of July promotions.

BRACH'S
PICK·A·MIX
Take a Bag–Mix Your Own

Candy sales at discount should bounce back with new introductions and sophisticated seasonal selling strategies. (DSN photos)

Household Cleaners $2.8 Billion	
Full-Line Discounters	$1.0B
Catalog Showrooms	—
Membership Warehouse	$1.2B
Specialty Discounters	$0.6B
Full-Line Discount Store Productivity	
Sales	$1.0B
Sales Per Store	$125,000
Dept. Size	1,500 Sq. Ft.
Sales Per Sq. Ft.	$83.33
Turns	5.1
Initial Markup	18.3%
Gross Margin	5.1%

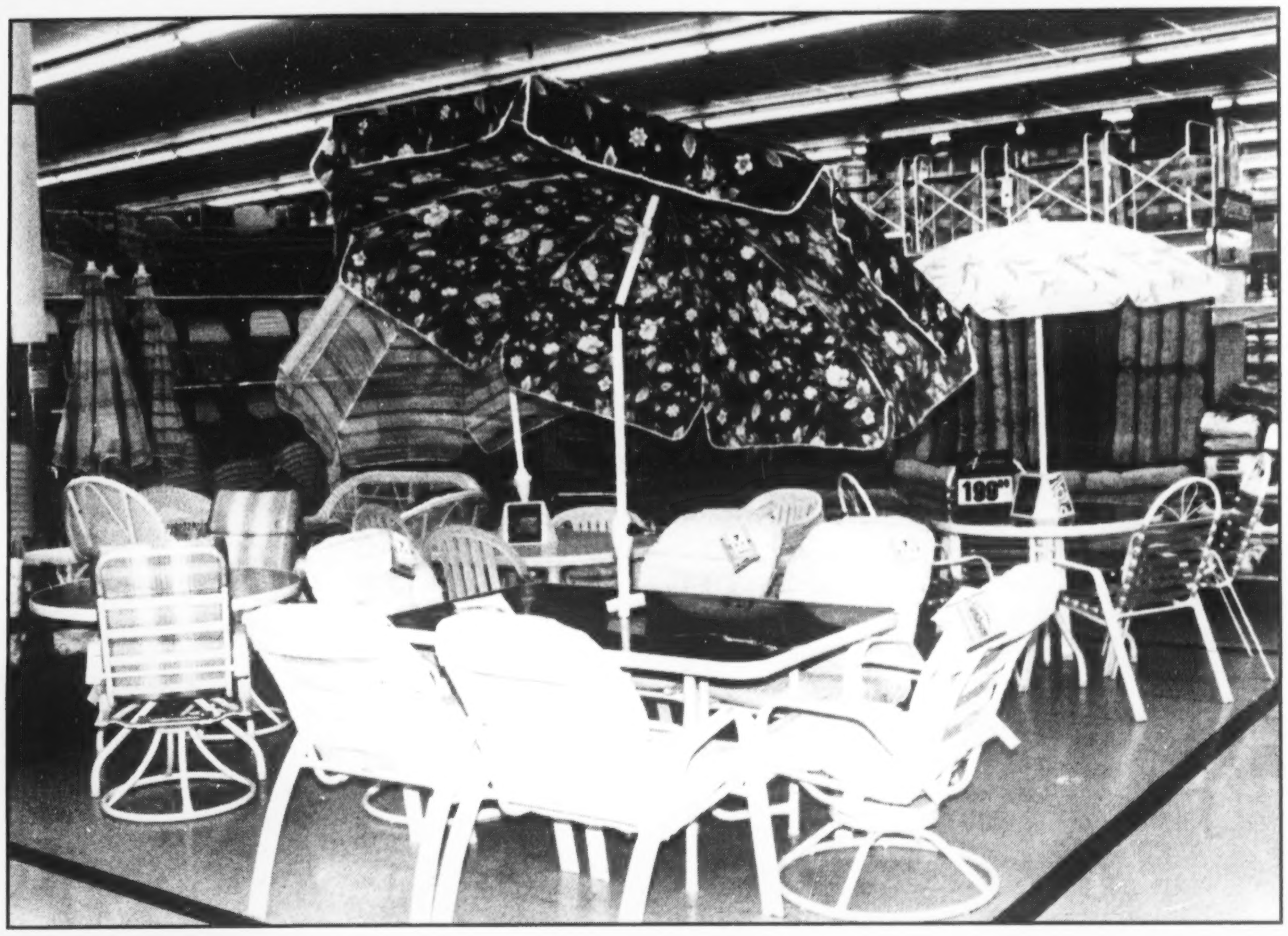
Source: DSN research

Food[1] $18.0 Billion	
Full-Line Discounters	$5.5B
Catalog Showrooms	—
Membership Warehouse	$11.2B
Specialty Discounters	$1.3B[2]
Full-Line Discount Store Productivity	
Sales	$5.5B
Sales Per Store	$688,000
Dept. Size	2,400 Sq. Ft.
Sales Per Sq. Ft.	$286.46
Turns	9.5
Initial Markup	23.7%
Gross Margin	17.1%

[1] Includes candy, snacks, beverages and packaged foods.

[2] Includes deep discount drug stores and variety store discounters.

Source: DSN research



The recession soured sales *of high-end products, such as lawn furniture, right, and but value goods like lower-end lawnmowers, sold well.*

Lawn & Garden Sales Blossom Despite Economy

The lawn & garden industry again defied the national recession last year, posting sales gains ranging from 6% to 14%, depending on whose survey you chose, and another minimum growth of 6% is foreseen for 1992.

Yet, 1991 was a "tough year for prices," as many retailers traded margins for volume, said Ian Baldwin, a lawn & garden consultant based in Sacramento, Calif. There are a lot of margins out there in the low 20s, he said.

The average sale per customer didn't go down, Baldwin said, but consumers tended to switch to short-term, less expensive bedding plants and biennials from long-term shrubs and trees, he said.

Tree sales were especially hurt, Baldwin added.

Mass merchandisers, with their superior sales information systems, responded "better and quicker to changing conditions," than did independent garden centers, Baldwin said. Accordingly, discounters were caught with less excess inventory.

Higher end products, such as big-ticket power equipment and lawn furniture, suffered a downturn, he said.

Instead, consumers turned to value products, such as hand tools, hoses and lower end lawnmowers.

Among the new products, humming bird feeders at $5.99 to $20 are doing well and some discount stores are starting to carry them, he said. Bird feeders in general is a strong category.

The recession has curtailed, however, the move toward organic fertilizers and pesticides. Organics, because of their higher prices, are a "bit of a bomb," at discounters, he said.

In a step beyond organics, a trend toward environmentally safe garden chemicals "is starting to develop in earnest," said Chuck Greenidge, president of Greenidge & Associates, a lawn & garden consulting firm based in Evergreen, Colo.

Unlike organics, which were a consumer driven movement, the move toward safer garden chemicals is being driven by commercial applicators and farmers, leery of lawsuits over the use of dangerous chemicals, he said.

Safer has come out with an extended line of fungicides, pesticides and weed killers that aren't necessarily biodegradable or organic, such as its best-known product, insecticidal soap, he said.

Lawn & Garden $3.6 Billion	
Full-Line Discounters	$3.0B
Catalog Showrooms	$0.2B
Membership Warehouse	$0.4B
Specialty Discounters	—
Full-Line Discount Store Productivity	
Sales	$3.0
Sales Per Store	$375,000
Dept. Size	1,450 Sq. Ft.
Sales Per Sq. Ft.	$258.62
Turns	2.3
Initial Markup	25.1%
Gross Margin	13.8%

Source: DSN research

From a retailer's standpoint, such products are priced high and carry margins of 40% to 50%. Because the products are so new, there is little discounting, Greenidge said.

Rigo, Chevron and Ortho also have added environmentally safer chemicals to their lines, Greenidge added, as retailer alternatives for their conventional products.

"It won't happen overnight," but the move toward safer chemicals is certain to develop because it is a broad-based market that cuts across all socio and economic lines, he said.

From a consumer standpoint, the major trend today is the desire for instant garden. "I want it today," is the predominant consumer attitude, he explained.

Accordingly, the move toward larger size nursery stock is burgeoning with three gallon sizes becoming common in place of one or two gallon.

Prices of the larger sizes aren't footballed as much, Greenidge said, and even discounters can get margins of 70% to 80% on larger sizes of unusual shrubs, compared to as low as 30% on one gallon sizes.

In line with the instant, ready-to-use trend, a market has developed for pre-planted container gardens that would mix a "collage of colors" in, say, a simulated clay pot made of light weight plastic that consumers could put out on a condo patio or patio balcony.

Wal-Mart and Kmart both have done a good job with preplanted window boxes and planters, he said.

Consumers also demand the convenience of ready-mixed products, such as Monsanto's Roundup weed killer, and are willing to pay markups of 35-40% for it, even though it is 90% water, Greenidge said.

L&G is becoming an important seasonal department for warehouse clubs, Greenidge said, and clubs are expanding their assortments in the typical, cherry-picking approach they follow in other departments.

Pace, for example, brings in colorful bedding plants for weekend sale, he said. And if consumers can make use of a 12.5 pound package of Miracle-Gro, Price Club, for instance, offers a terrific price of about $15.

In another merchandising development, Wal-Mart is spearheading the move toward closed-loop video presentations, such as videos on how to use riding mowers, Greenidge said.

The boom in L&G sales of at least 10% over the past several years shows no signs of ending, Greenidge said.

Periodically, MILES Inc. offers performance discounts and allowances and/or other promotional funding for displaying, advertising and promoting our product lines. Point-of-sale and display materials, e.g., dump bins, channel strips, wags, etc., are available. These offers are practical and useable by all retailers regardless of size. Specific brands included are:

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EXTRA STRENGTH ALKA-SELTZER®

ALKA-MINTS® Chewable Antacid

ALKA-SELTZER PLUS® Cold Medicine
ALKA-SELTZER PLUS® Night-Time Cold Medicine
ALKA-SELTZER PLUS® Sinus Allergy Medicine
ALKA-SELTZER PLUS® Cold & Cough Medicine

BACTINE®

DOMEBORO®

MYCELEX® OTC

MILES® NERVINE

ONE-A-DAY® Multivitamin/Multimineral Supplements

FLINTSTONES™ Multivitamin/Multimineral Supplements

BUGS BUNNY® Sugar Free Multivitamin/Multimineral Supplements

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1992 MI

DISCOUNT INDUSTRY ANNUAL REPORT: PART II

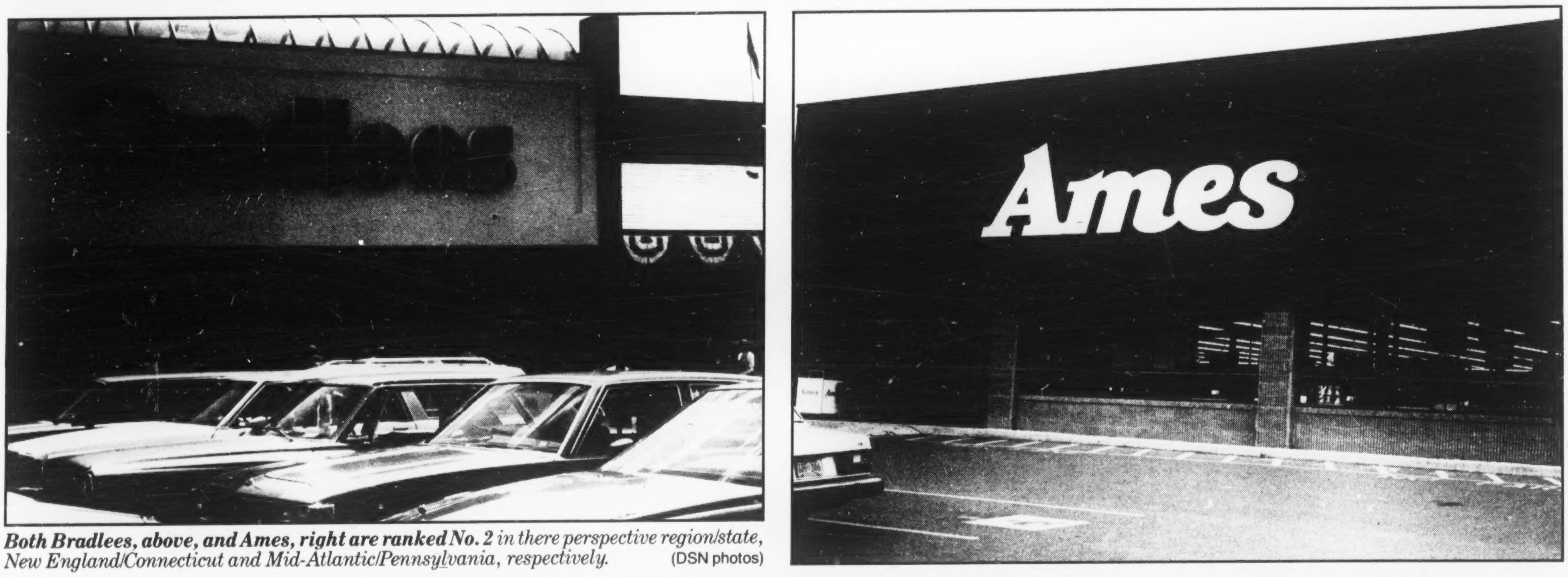
Discount Stores by Region and State[1]

Region/State	Discount Dept. Store[2]	SMR[3]	Catalogers	Clubs	Total	Top 2 Leading Chains by Region, State			
New England	443	55	57	25	580	Ames	131	Bradlees	76
Connecticut	101	10	13	8	132	Caldor	30	Bradlees	27
Massachusetts	187	21	27	8	243	Ames	42	Bradlees	37
Maine	52	8	6	5	71	Ames	29	Kmart/Sears	8
New Hampshire	61	10	8	2	81	Ames	23	Kmart	10
Rhode Island	23	4	2	2	31	Ames	7	Kmart	5
Vermont	19	2	1	0	22	Ames	13	Kmart	3
South Atlantic	1,292	240	274	79	1,885	Kmart	467	Wal-Mart	345
Delaware	15	4	4	1	24	Ames	10	Rose's/Jamesway	5
Florida	303	76	100	36	515	Kmart	159	Wal-Mart	124
Georgia	205	24	17	12	258	Kmart	82	Wal-Mart	80
Maryland	106	37	27	11	181	Ames	42	Kmart	32
North Carolina	287	29	53	8	377	Rose's	115	Kmart	77
South Carolina	114	15	22	2	153	Wal-Mart	50	Kmart	44
Virginia	193	40	44	8	285	Rose's	54	Kmart	53
Washington, D.C.	1	2	0	0	3	Sears	2	Ames	1
W. Virginia	68	13	7	1	89	Kmart/Ames	16	Hills	11
East North Central	1,393	229	157	77	1,856	Kmart	503	Wal-Mart	220
Illinois	278	81	43	14	416	Kmart	108	Wal-Mart	85
Indiana	230	33	24	16	303	Kmart	81	Wal-Mart	55
Michigan	305	44	38	18	405	Kmart	126	Meijer	52
Ohio	397	49	48	21	515	Kmart	128	Hills	50
Wisconsin	183	22	4	8	217	Kmart	60	ShopKo	36
East South Central	601	66	72	21	760	Wal-Mart	290	Kmart	182
Alabama	167	18	17	6	208	Wal-Mart	80	Kmart	45
Kentucky	142	13	10	5	170	Wal-Mart	67	Kmart	50
Mississippi	111	11	15	4	141	Wal-Mart	57	Kmart	20
Tennessee	181	24	30	6	241	Wal-Mart	86	Kmart	67
Mid-Atlantic	796	140	188	34	1,158	Kmart	223	Ames	161
New Jersey	160	20	42	8	230	Kmart	45	Jamesway	33
New York	301	63	93	11	468	Ames	92	Kmart	66
Pennsylvania	335	57	53	15	460	Kmart	112	Ames	61
South West Central	803	156	83	57	1,099	Wal-Mart	473	Kmart	231
Arkansas	112	11	4	6	133	Wal-Mart	78	Kmart	18
Louisiana	119	21	18	9	167	Wal-Mart	76	Kmart	40
Oklahoma	125	18	8	5	156	Wal-Mart	84	Kmart	17
Texas	447	106	53	37	643	Wal-Mart	235	Kmart	156
West North Central	765	105	30	26	926	Wal-Mart	230	Kmart	195
Iowa	143	20	4	3	170	Pamida	44	Wal-Mart	40
Kansas	112	19	4	3	138	Wal-Mart	43	Kmart	27
Minnesota	150	25	5	6	186	Kmart	45	Pamida	42
Missouri	186	24	9	10	229	Wal-Mart	106	Kmart	44
Nebraska	87	10	2	2	101	Kmart	19	ALCO	16
North Dakota	39	5	3	1	48	Kmart	12	Pamida	9
South Dakota	48	2	3	1	54	Kmart	12	Pamida	11
Mountain	418	81	53	34	586	Kmart	157	Wal-Mart	89
Arizona	94	19	11	11	135	Kmart	35	Wal-Mart	25
Colorado	97	25	16	10	148	Kmart	34	Wal-Mart	28
Idaho	30	8	2	1	41	Kmart	12	Sears/Shopko	7
Montana	32	5	3	2	42	Kmart	13	Pamida	7
Nevada	24	7	7	3	41	Kmart	11	Target	5
New Mexico	50	10	9	1	70	Kmart	22	Wal-Mart	21
Utah	53	4	4	6	67	Kmart	20	Fred Meyer	13
Wyoming	38	3	1	0	42	Pamida	15	Kmart	10
Pacific	534	172	67	220	993	Kmart	234	Sears	109
Alaska	5	2	0	2	9	Fred Meyer	5	Sears	2
California	294	125	56	193	662	Kmart	176	Target	103
Hawaii	5	6	0	1	12	Sears	6	Gem of Hawaii	5
Oregon	127	15	5	6	153	Fred Meyer	41	Bi-Mart	38
Washington	103	24	12	18	157	Kmart	34	Fred Meyer	30
Puerto Rico	14	8	0	0	22	Kmart	14	Sears	8
Total:	**7,059**	**1,258**	**1,064**	**573**	**9,865**				

[1] Chart excludes dollar discount chains, closeouters, hypermarkets, and off-price apparel stores.
[2] Total numbers may vary slightly depending on frequent openings and closing during the year.
[3] SMR—Specialty Mass Retailer

Source: Discount Store News/Chain Store Guides

DISCOUNT INDUSTRY ANNUAL REPORT: PART II



Both Bradlees, above, and Ames, right are ranked No. 2 *in there perspective region/state, New England/Connecticut and Mid-Atlantic/Pennsylvania, respectively.* (DSN photos)

1991 Store Counts Flat by State & Region

The 1990s may be clouded by recession for a broad mix of the nation's retailers, but for the warehouse clubs, the good times just keep on rolling.

These high volume stores that carry everything from lettuce to truck tires have posted tremendous increases in both sales and unit count and appear as a bright spot on *DSN*'s store count report, page 84.

In 1991, the number of warehouse clubs soared as acceptance of the concept of bulk purchases in bare-bones settings claimed more and more loyal customers. By year's end, about 573 units were in operation, mostly in California, the birth place of the format, but with a substantial showing across the entire country.

More growth is expected in 1992 as new club openings swell even higher, possibly over the 700 mark, in even more new markets. Fueling that growth are the largest club operators, particularly Sam's Clubs, which, along with Wal-Mart discount stores, is pushing into the Northeast.

The club growth helped to offset the decline of the entire discount industry's store base, which has been ravaged by recession-linked closings.

Store closings by Ames, L.A. Joe's and Hills, plus such catalogers as The Present Co., and others, made the overall store count fall last year below 1990 levels.

In 1991, the total number of discount stores—discount department stores, specialty discounters, mass retailers (Sears and Montgomery Ward), catalog showrooms, and warehouse clubs—fell to 9,865 units nationwide, a drop of nearly 300 outlets.

Catalog showrooms, hit hard by a changing marketplace, suffered extremely in 1991 as the list of companies in this business shortened.

For 1991, 1,064 catalog showrooms operated all or part of the year, a decline of about 100 stores. By the end of this year, that number may dip again as catalogers now in the throes of closing up shop leave the retail scene completely or change their emphasis to more lucrative businesses, like jewelry.

The specialty mass retailers, specifically Sears and Montgomery Ward, increased their store counts in 1991. Sears, which made headlines for a number of reasons including cost-cutting policies and layoffs, still added stores in 1991, as did Montgomery Ward. For the year, these two chains operated over 1,250 stores nationwide, an addition of over 50 stores from 1990.

The largest proportion of discount stores in the country, of course, remains the full-line discount department store, specifically Kmart. However, with Wal-Mart's commitment to growth, Kmart's dominance in this area is likely to crumble in the coming years.

As in 1990, Kmart continued its domination of five regions of the country—South Atlantic, East North Central, Mid-Atlantic, Mountain and Pacific—plus Puerto Rico. Wal-Mart is dominant in three regions, West North Central, south West Central and East South Central. However, Wal-Mart's rapid store growth in the South Atlantic states threatens Kmart store count supremacy.

Despite the store openings of Kmart and Wal-Mart, the entire discount department store industry operated about 250 fewer stores in 1991 than in 1990. Discount stores totaled 7,059 units last year, compared to 7,340 stores in 1990.

The area with the greatest number of stores last year was the East North Central states of Illinois, Indiana, Michigan, Ohio, and Wisconsin. These five states were home to 1,393 discount department stores, and a total of 1,856 stores, including specialty mass retailers, catalogers and clubs.

But the region of the country with the greatest number of discount stores, regardless of format, was the South Atlantic. This large region, consisting of eight states plus Washington, D.C., tallied 1,885 stores in 1991. Of that, 1,292 units were discount department stores. Within the region, the high-growth state of Florida led the way with 303 discount stores and 100 catalog showrooms, thanks largely to Luria's, based in the Sunshine State.

The region with the least number of stores was New England. This six-state region, hit hard by the recession, had just 580 discount stores in 1991, just six shy of 586-store Mountain region.

The eight Mountain states had just 418 discount department stores within their boarders last year. However, the 418 stores represents a 34-store increase over 1990.

The other regions break down as follows:

- Mid-Atlantic, 1,158 total stores of which 796 are discount department stores;
- South West Central, 1,099 stores, 803 discount department stores;
- Pacific, 993 stores, 534 discount department stores.
- West North Central, 926 stores, 765 discount department stores; and
- East South Central, 760 discount stores, 601 discount department stores.

Despite the overwhelming dominance of Kmart and Wal-Mart in most regions and states across the country, there were areas where other discounters dominated the retail landscape.

In the Northeast, for example, Ames, with 131 stores, dominated, followed by Bradlees. Caldor also is a strong competitor in this region as is Jamesway.

The three Mid-Atlantic states of New York, New Jersey and Pennsylvania, where Wal-Mart is only beginning to enter and Kmart opened in metro New York just last year, is heavily supported by stores by Ames and Jamesway.

Ames also came out on top in the state of Delaware, and in Washington, D.C. Elsewhere in the South Atlantic region, Hills was a strong competitor in West Virginia, with 11 stores.

Hills also was the No. 2 discounter in the East North Central state of Ohio after Kmart, with 50 stores. ShopKo was the No. 2 chain by store count in Wisconsin, also after Kmart. Meijer, with 52 stores, was second to Kmart in Michigan.

In the West North Central region, Pamida was a strong competitor with its store base, particularly in Iowa, Minnesota and North and South Dakota. ALCO's 16 stores in Nebraska were second to Kmart's 19 units in that state.

Pamida also was a force in the Mountain states of Wyoming and Montana where such regionals as ShopKo and Fred Meyer appeared on the store count charts. In Nevada, Target rose to the list, in second place to Kmart. Also, Sears, with seven stores, tied ShopKo in Idaho for the No. 2 spot after Kmart.

Sears figured prominently in the Pacific states, particularly in Alaska and Hawaii.

Other top retailers by store count in the Pacific region include Fred Meyer in Alaska, Oregon and Washington, Bi-Mart in Oregon, Gem of Hawaii in Hawaii, and Target in California.

WAL-MART
DISCOUNT CITY

Wal-Mart is the No. 1 chain *in store count in the East South Central region.*

Wal-Mart, CE, Office, & Dollar Stores Tops in Growth

While it is not a surprise, Wal-Mart or a Wal-Mart subsidiary topped all retailers in growth, whether measured in dollar gain, earnings growth or percentage growth. Only in store count did the Bentonville giant slip . . . all the way to second place!

However, Wal-Mart was not the only growth story last year. Dollar stores, consumer electronics chains and office supply superstores all turned in enviable growth performance. Measured by percentage sales increases over the previous year, four office supply chains made the top ten, along with two closeouters, home products megaretailer IKEA, sporting goods megastore Sports Authority, and a hypermarket operator, Big Bear Plus, whose growth came at the expense of Harts discount stores, both owned by Penn Traffic. Harts stores are gradually being converted over to the Big Bear Plus format.

Academy Sporting Goods, which operates only in Houston, was also a major gainer, and three top consumer electronics retailers, BrandsMart USA, The Good Guys and Best Buy, ranked in the top 20, impressive for retailers in a flat industry during a recession year.

In dollar volume growth, Wal-Mart took the top two slots (Sam's Club finished second), but Kmart's Pace clubs ran a strong third, followed by Price Club and Costco, the other major club operators.

The next four spots were nailed down by full-line discounters, and the rest of the top 20 was dominated by specialty chains, mainly consumer electronics (Circuit City and Best Buy), office chains (Staples and BizMart) and off-price apparel chains (T.J. Maxx and Marshalls).

Store growth was dominated by opportunistic specialty operations. Kay Bee Stores was a surprise No. 1 (largely through the acquisition of 136 units from Virginia-based K&K Toys), but dollar stores and closeouters dominated the chart, along with specialty operations like Lechters. These chains run small, generally inexpensive stores, and evidently took advantage of real estate deals nationwide. The three top discounters also made the top 20, with Wal-Mart well ahead of both Kmart and Target.

And, in the all-important profit growth category, Wal-Mart was again well ahead of the competition. Kmart ran a distant second. QVC Network, AutoZone, Consolidated Stores, Ross Stores and Value City also had highly profitable years, while better known competitors failed to make the chart. Biggest winners, on a percentage basis, were Pace (profits up 225%) and Staples (profits up 213%). Sears also rallied, although its results compared to a near-disastrous 1990. Predictably, dollar stores and closeouters fared well in profit growth, as they took advantage of the growing thriftiness of recession-weary consumers.

Top Chains in Dollar Sales Growth

Chain	Code	Sales 1991	Sales 1990	% Change	Sales Growth (In Millions)
Wal-Mart	DDS	$31,667	$25,496	24.2%	$6,171
Sam's	CLUB	9,430	6,579	43.3	2,851
Pace	CLUB	3,646	2,295	58.9	1,351
Price Club	CLUB	6,598	5,286	24.8	1,312
Costco	CLUB	5,216	4,060	28.5	1,156
Target	DDS	9,041	8,175	10.6	866
Kmart	DDS	24,749	24,144	2.5	605
Meijer	HYPER	3,500	3,000	16.7	500
Montgomery Ward	SMR	5,600	5,128	9.2	472
Circuit City	CE	2,790	2,367	17.9	423
Office Depot	OFFICE	1,301	903	44.1	398
Toys "R" Us	TOY	4,500	4,180	7.7	320
Fred Meyer	HYPER	2,700	2,400	12.5	300
BJ's Wholesale Club	CLUB	1,432	1,150	24.5	282
T.J. Maxx	APP	2,180	1,900	14.7	280
Best Buy	CE	930	665	39.8	265
Pay Less NW	DDD	1,892	1,642	15.2	250
Staples	OFFICE	547	299	83.1	248
BizMart	OFFICE	493	259	90.3	234
Marshalls	APP	2,358	2,183	8.0	175

Source: DSN Research

Top Chains in Store Count Growth

Chain	Code	Number of Stores 1/90	Number of Stores 1/91	Proj. 1/92	Number of New Stores In 1991
Kay-Bee	TOY	963	1,270	1,280	307
Wal-Mart	DDS	1,573	1,720	1,880	147
Everything's A $1	CLOSE	105	207	407	102
Dress Barn	APP	462	550	600	88
AutoZone	AUTO	598	678	718	80
Pay Less NW	DDD	321	401	429	80
Family Dollar	DOLLAR	1,680	1,759	1879	79
Lechters	HOME	364	438	528	74
One Price Clothing Stores	APP	295	365	429	70
Office Depot	OFFICE	228	290	345	62
Consolidated Stores	CLOSE	337	398	438	61
Dollar General	DOLLAR	1,461	1,522	1,612	61
Sam's	CLUB	148	208	248	60
Dollar Tree Stores	CLOSE	130	186	260	56
Staples	OFFICE	74	123	179	49
Toys "R" Us	TOY	451	497	542	46
T.J. Maxx	APP	392	437	482	45
Kmart	DDS	2,205	2,249	2,308	44
Western Auto	AUTO	504	548	600	44
Target	DDS	420	463	508	43

Source: DSN Research

Top Chains in Dollar Earnings Growth

Chain	Code	Earnings[1] (In Millions) 1991	Earnings[1] (In Millions) 1990	% Change	Earnings Growth (In Millions)
Wal-Mart	DDS	$2,553.0	$2,043.0	25.0%	510
Kmart	DDS	1,367.0	1,257.0	8.8	110
Sears	SMR	163.0	77.0	111.7	86
QVC Network	ELE	84.4	29.4	187.1	55
Costco	CLUB	137.7	93.0	48.1	45
AutoZone	AUTO	72.0	38.0	89.5	34
Circuit City	CE	124.1	91.4	35.8	33
Pace	CLUB	39.0	12.0	225.0	27
Toys "R" Us	TOY	498.0	473.0	5.3	25
Consolidated Stores	CLOSE	38.3	15.2	152.0	23
T.J. Maxx	APP	180.9	160.6	12.6	20
Ross Stores	APP	45.0	25.0	80.0	20
Fred Meyer	HYPER	86.8	67.5	28.6	19
Family Dollar	DOLLAR	63.7	47.6	33.8	16
Price Club	CLUB	213.8	199.2	7.3	15
Pay Less NW	DDD	90.0	77.0	16.9	13
Value City	DDS	43.8	31.2	40.4	13
Staples	OFFICE	18.4	5.9	212.5	13
Venture	DDS	65.8	53.8	22.3	12
Dollar General	DOLLAR	34.7	23.1	50.2	12

[1] Earnings: Operating income (profit/loss from continuing operations, before taxes and extraordinary items), unless otherwise indicated.

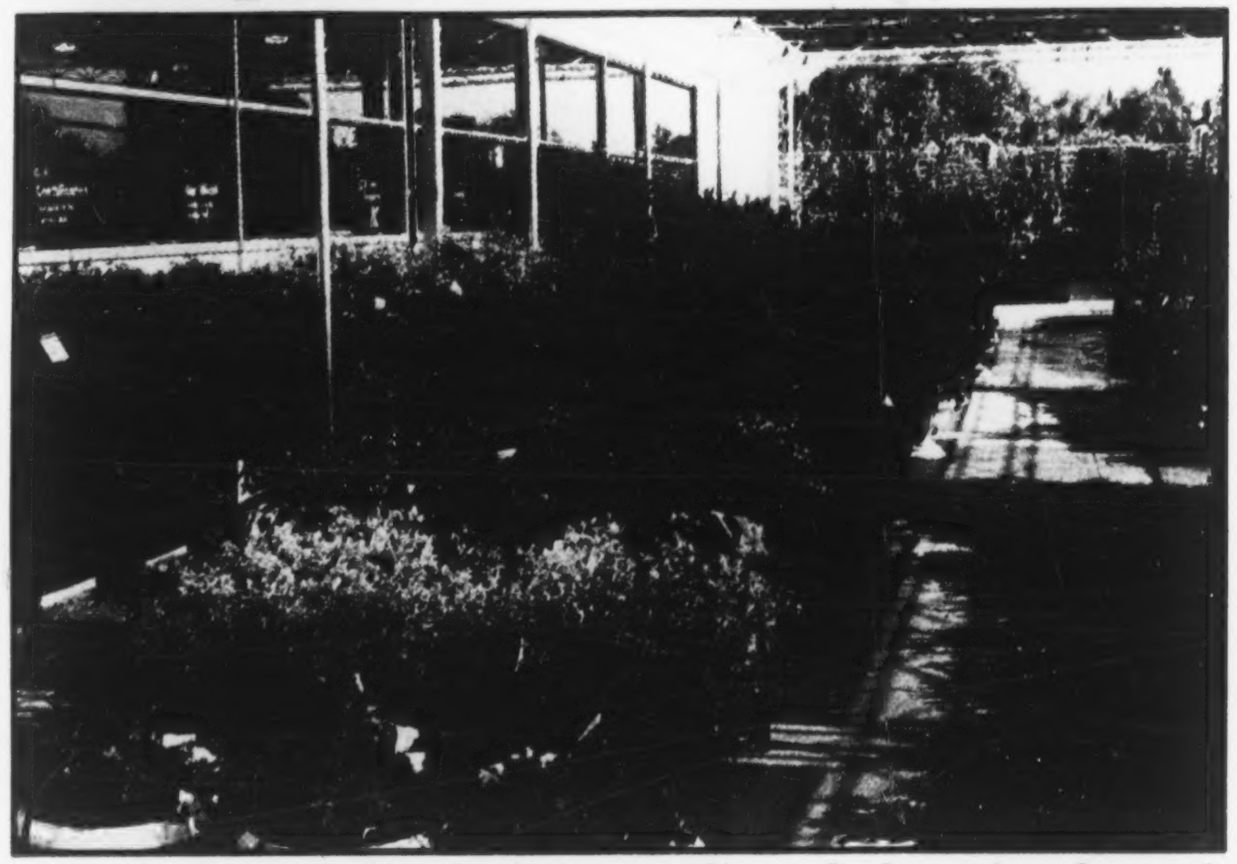
DSN Research

Top Chains in Percentage Sales Growth

Chain	Code	Sales (In Millions) 1991	Sales (In Millions) 1990	% Change '90-'91
Bud's Warehouse Outlets	CLOSE	$ 50	$ 10	400.0%
Sports Authority	SPORT	241	105	129.5
Everything's A $1	CLOSE	128	59	115.3
OfficeMax	OFFICE	245	124	97.6
BizMart	OFFICE	493	259	90.3
Big Bear Plus	HYPER	190	100	90.0
Staples	OFFICE	547	299	83.1
OW Office Warehouse	OFFICE	140	80	75.0
IKEA, N.A.	HOME	284	169	68.0
50-Off Stores	APP	128	77	66.2
Wholesale Depot	CLUB	80	50	60.0
Pace	CLUB	3,646	2,295	58.9
Academy	SPORT	160	105	52.4
Super Kmart Center	HYPER	300	200	50.0
BrandsMart USA	CE	197	134	47.0
U.S. Merchandise	CAT	35	24	45.8
The Good Guys	CE	427	294	45.2
Office Depot	OFFICE	1,301	903	44.1
Sam's	CLUB	9,430	6,579	43.3
Best Buy	CE	930	665	39.8

Source: DSN Research

Expanded L&G Dept. Helps Fertilize Kmart's Sales



Kmart has arranged its shrubs in ascending order by variety, for continuity of the visual flow at its Greeville, Mich., store. (DSN photo)

(Continued from page 91)

The extra space allows for bulk displays of merchandise on stack tables, such as 5-lb. boxes of K-Gro soluble fertilizer at $6.97, compared to Miracle-Gro at $10.97.

"We turn quite a bit of merchandise" on the stack tables, McCormick said.

The wider aisles also allow better display of power equipment, such as Kmart's new line of mowers from O.M. Scott.

"Customers like to touch riding mowers," McCormick said, "Kids like to climb on them."

In a merchandising wrinkle, the new department was displaying a Scott, 12.5 horsepower riding mower over a mirror, so customers can readily check the underside. The 40-in. mower, featuring all-wheel steering, was priced at $1,499, but Kmart has since temporarily trimmed the price to $1,399 as part of its price rollback program.

The department also carried a Dynamark riding mower, with a 12 horsepower engine and 38-in. cut, at $878.

Noma Manufacturing, Jackson, Tenn., , makes both the Scott and Dynamark lines.

So far this year, Kmart has sold as many Scott riding mowers as it did $850 models in 1991, Charles said. The Scott offers the same features as John Deere mowers but for half the price, he said.

Other Scott mowers on display were a self-propelled mulching mower, 5 horsepower engine, 21-in. cut, at $438 on ad, $488 everyday; a mulch-n-bag push mower, 5 housepower engine, 21-in. cut at $358 on ad, $398 everyday; and a rear-engine riding mower, 10.5 horsepower, 30-in. cut, $1,019.

Other power equipment doing well includes the Ryobi cordless weed trimmer at $96.97, McCormick said, and the new Mac-Vac yard vacuum and mulcher from McCulloch at $114.97.

The outdoor green goods area displays flowering shrubs, such as rhododendrons and azaleas, up front for maximum impact, other shrubs in the center and trees to the rear.

Department manager Winske arranges the shrubs, which come in 1-, 2-, and 3-gal. sizes, in ascending order by variety, for continuity of the visual flow.

"Some places just throw things out on the floor. Effective display and availability of sizes are key to green goods sales," Winske said.

Rhododendrons are priced at $39.97 for three gallon sizes and $19.97 for two. Two-gallon azaleas were doing well at $16.97. And fruit trees such as Delicious apple and dwarf Elberta peach, in three-gallon sizes were priced at $19.97

A flat of 36 petunia plants was priced at $9 on ad, $11.82 everyday, while two six-packs of such bedding plants was priced at $3.

A massive display of geraniums that flanked the L&G front entrance were priced at 99 cents each. Kmart also merchandises them in six-packs at the same price.

By October, Kmart will have reset L&G for fall to offer such goods as lawn fertilizer, yews arbor vitaes and mums. Then comes Christmas trim-a-tree and other seasonal uses.

The expanded garden center will help Kmart maintain its position as the largest L&G retailer in the world, Charles said.

Citing a L&G industry trade source, Charles said that Kmart sold $820 million worth of L&G hard lines and green goods in 1991, compared to $544 million for Wal-Mart and $210 million for Home Depot. About 35% of sales are green goods.

Because of a "very disappointing" April, Kmart expects to increase L&G sales by 3% to 4% this year, following a 3% gain in 1991, Charles said.

All five weekends in April were rainy and the midwest had snow twice in mid-April. In Atlanta, where April temperatures normally are in the 70s, the temperature got down to freezing, he said.

When you take a six-week heart out of a selling season that runs about five months, any sales increase for the full year will be modest, even though sales gains since June and July are running double digit, he said.

OPEI Show Hosts Array of Environmental Products

Where Households Bought Lawn and Garden Supplies
(No. of Households in Millions)

	1989[1]		1990		1991	
Outlet	**% of HH**	**No. of HH**	**% of HH**	**No. of HH**	**% of HH**	**No. of HH**
Garden Center	50	35	51	35	45	33
Hardware Store	34	24	33	25	32	24
Mass Merchandiser	32	22	31	23	34	25
Feed/Seed Store	21	15	20	15	18	13
Supermarket	23	16	20	15	22	17
Home Center	21	15	25	19	22	17
Mail Order	12	8	10	8	11	8
Other	3	2	2	1	3	2

HH = Households

[1] Percentages add up to more than 100 because householders shop at more than one type of retail outlet.

Source: National Gardening Association annual surveys

Lawn and garden sources differ about what sales did last year and what they can be expected to do this year.

But what appears beyond question is that 5% to 10% fewer chain buyers will visit Expo '92, the annual show of the Outdoor Power Equipment Institute. And when the show opens in Louisville, Ky., July 26 for its three-day run, attendees will find exhibit space down by 8% to 10%. Show director Warren Sellers blames the economy for the expected decline but emphasizes that about the same number of exhibitors—with the notable exception of Toro—will be represented, even though they are taking smaller booths. In the same vein, Sellers stresses that the same number of chains will be at the show but with smaller delegations.

Out of 18,019 attendees at Expo '91, 661 were chain buyers. Sellers said he expects the total attendance this year to remain about the same, based on preregistrations.

In dropping out of this year's OPEI show, Toro said it will be back next year, Sellers said. Toro mowers are gaining a toehold in discounting, with Price Club offering a self-propelled Toro rear-bagging mower, with a 4.5 horsepower engine, for $369.99.

New products of interest at the show include:

- Enviro-Muffler, catalytic converter mower mufflers said to reduce pollution from engine fumes, by United Emission Catalyst;
- Clear trash bags from Ironclad for recycling;
- Conserve Sprinkler, from Heartland Products;
- Drip watering kits and books from Raindrip Inc.;
- Recyclable bird houses and flat-packaged garden hooks from Euro Garden Design;
- Tree Saver, tree anchoring system, by Lawson & Lawson;
- Blue Foam Ear Plugs from Elvex Corp.;
- Yankee Potter Compost unit from Bonar Plastics;
- Reel lawn mower sharpening kit from American Lawn Mower.

Jim Bennett, host of the syndicated TV gardening show, "Backyard America," said he expects to see more quality engineered into power equipment displayed at the show. "Americans are more quality conscious about outdoor equipment because of their concern about quality in cars," Bennett said.

Because of the economy, he feels that vendors will pretty much hold the line on prices.

As the show opens, the OPEI is forecasting a 3.4% unit decline in manufacturers shipments of walk-behind power mowers during 1992, following a 6.1% decline in 1991. But looking ahead to 1993, it projects a 9.2% increase for the category.

The OPEI predicted that riding mowers: front and rear engine and garden tractors, will have a 3.4% increase in shipments this year, compared to the 8.6% decline in 1991, and a further increase of 4.5% in 1993.

Because of a mild winter, shipments of snowblowers plunged 19% last year. The OPEI projections fail to predict what snowblower shipments will be for the year ended Feb. 28.

The OPEI traditionally releases actual shipments for the year at its show.

Retail sales of all L&G hard lines and live goods gained 6.4% last year, the National Gardening Association concluded from its annual survey, and retail sales should gain about 5% to 6% more in 1992, the association expects.

Retail sales from all channels of trade rose to $22.13 billion from $20.8 billion in 1990, the survey of consumer purchasers found.

As usual, lawn care, including purchases of seed, sod, fertilizer and power mowers, accounted for the lion's share: $6.89 billion, up 7.5% from $6.41 billion in '90.

Landscaping showed the largest percentage gain, 25.8% to $4.83 billion from $3.84 billion. But the surge is a delayed response to the strong housing market of three years ago, said Bruce Butterfield, research director for the association.

(Continued on page 95)

OPEI Features Environmental Products

(Continued from page 93)

Landscaping of new houses usually is last priority behind interior decorating and furnishing and traditionally lags two to three years behind a house purchase, he said.

Average expenditures per household rose to $296 in 1991 from $282 a year earlier, the survey found.

In a finding of particular significance to discounters, 34% of respondents said they purchased L&G supplies at a mass merchandiser, up from 31% in 1990. That translates into 25 million households, an increase from 23 million. Discounters thus edged out hardware stores as a source of L&G goods, although the survey accuracy of plus or minus 3 percentage points could nullify that apparent gain.

The increased traffic in discount stores should mean increased sales for discounters, Butterfield said. But because gardeners cross-shop and purchase supplies from more than one source, the 34% figure cannot be related to market share.

What the survey shows is that shopping at garden centers has declined, with 45% of householders having bought supplies there in 1991, down from 51% in 1990.

Garden centers probably lost 5% to 10% in market share last year, said Ron Marciel, a Fremont, Calif.-based consultant to independent garden centers, with discounters, including Home Depot, picking up most of the lost share.

"Sales overall, are pretty flat."

Kmart, based on a 3% increase in L&G in 1991 and a dismal spring selling season because of cold and rainy weather, is making a more conservative projection for 1992 of a 3% to 4% gain.

Frank's Nursery, a mass merchant chain of garden and crafts centers, recorded only a 2% gain in 1991, said Dennis Charles, senior horticultural buyer for Kmart. Wal-Mart showed a 17% gain in L&G sales last year, Charles said.

That looks impressive until compared with Wal-Mart's 30% spurt in total sales, he said.

***Realizing that more consumers** are buying lawn & garden supplies at discounters, ShopKo has given the department prominence.*

***Venture merchandises** its patio furniture with barbecues and other outdoor equipment.*

Lawn & Garden Retail Sales, 1989 to 1991
(In $Millions)

Activity	1989	1990	1991
Lawn Care	$ 5,660	$ 6,412	$ 6,890
Flower Gardening	1,857	2,275	2,302
Indoor Houseplants	822	928	852
Vegetable Gardening	1,026	1,384	1,652
Shrub Care	844	1,099	1,030
Insect Control	1,052	1,370	1,260
Flower Bulbs	478	579	520
Tree Care	886	1,445	1,443
Landscaping	2,605	3,837	4,828
Fruit Trees	287	502	371
Raisings Transplants	139	181	141
Container Gardening	240	359	330
Growing Berries	73	79	90
Ornamental Gardening	266	268	264
Herb Gardening	58	84	161
Total:	$16,285	$20,892	$22,134

Source: National Gardening Association annual surveys

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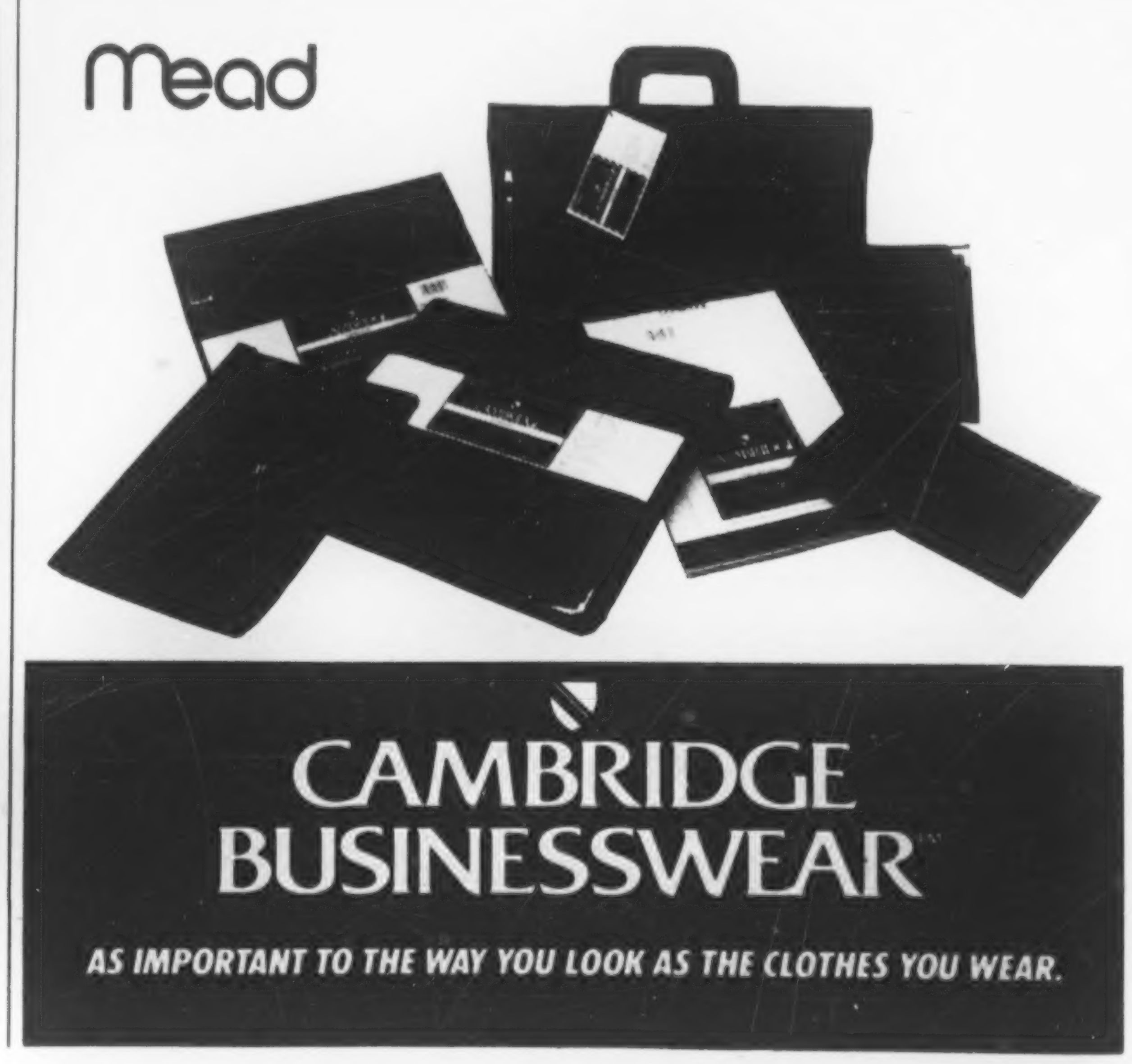

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Discount Store News®

THE INTERNATIONAL NEWSPAPER OF DISCOUNT RETAILING

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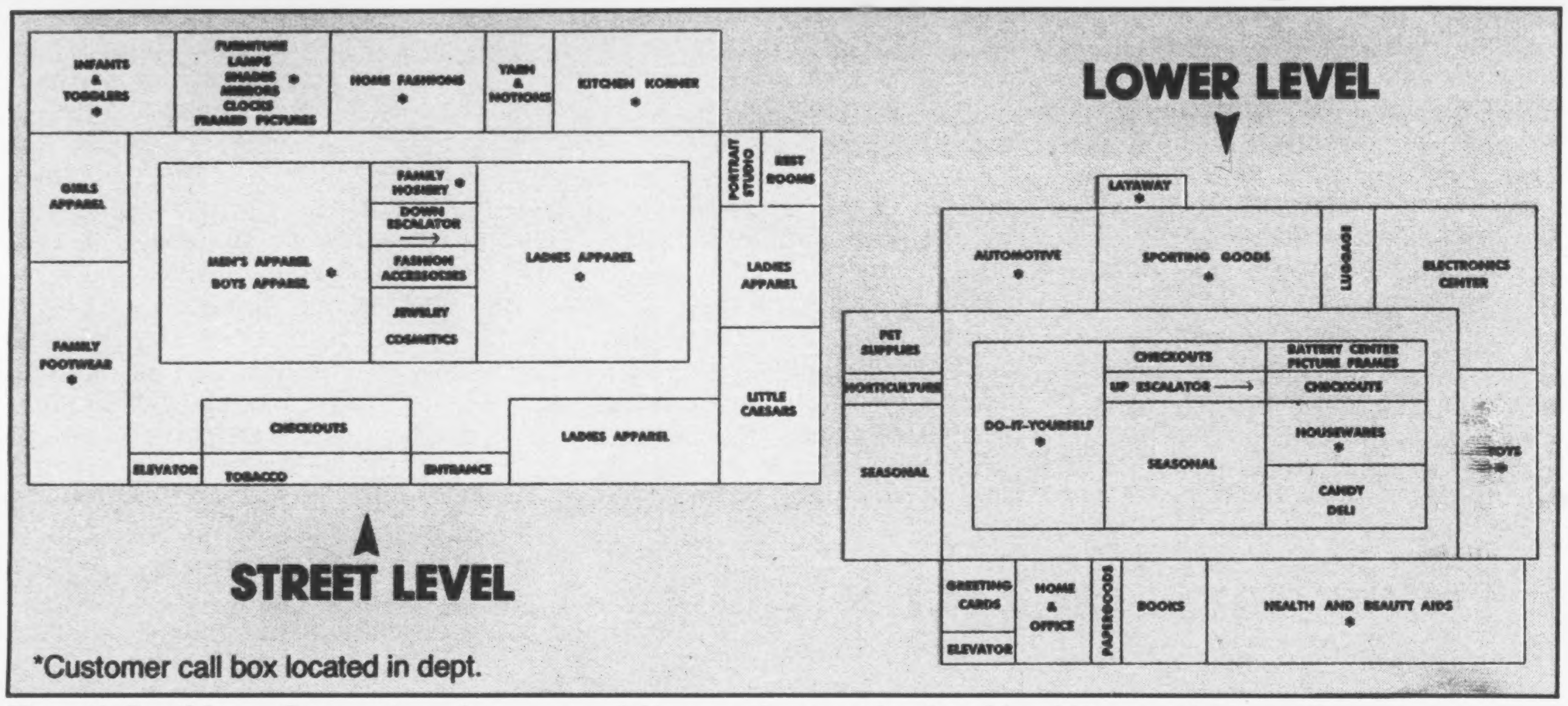
Kmart Bares Merchandising Flexibility

By Laura Liebeck

SOUTHBURY, Conn. — Kmart massaged the details of its typical store layout to accommodate a bi-level, second use site here that provides insight into the chain's merchandising flexibility.

The 120,000-sq.-ft. former Jordan Marsh department store, which opened last month, showcases soft lines on the main or street level and hard lines on the lower floor. While the merchandising presentations were sometimes challenged by the massive support columns throughout the facility and by many aisles that were underlit, it is likely that this store's layout will be duplicated when Kmart opens its long-awaited store Oct. 29 in Fresh Meadows, N.Y., in a former two-level Bloomingdale's department store.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TOYS *
GREETING CARDS
HOME & OFFICE
PAPERGOODS
BOOKS
HEALTH AND BEAUTY AIDS *
ELEVATOR
*Customer call box located in dept.

Kmart's Southbury, Conn., store showcases soft lines on the street level and hard lines on the lower floor.

Kmart operates just a handful of two-level stores, having acquired them on an opportunistic basis. This site in Southbury certainly qualifies as a prime location: an upscale area with a large retiree base, according to various Kmart sources.

With the growing stock of abandoned department store buildings throughout the country on the rise—including the 11 newly vacated Alexander's units—Kmart is positioning itself with this store to take advantage of real estate opportunities once overlooked because the sites didn't match company floorplans.

The Southbury store isn't the only unit Kmart will open this year that doesn't fit the traditional store profile. The chain's first Hawaiian store, in Iwilei, will be housed in a long and narrow 72,000-sq.-ft. former Pay 'N Pak Home Improvement Warehouse. It has an unattached second building which will house much of that store's warehouse stock.

The Iwilei store opens in October. Other fall open-

(Continued on page 30)

Wal-Mart's New Place In Sun—Puerto Rico

SAN JUAN, Puerto Rico — Wal-Mart will officially open its initial store in this island commonwealth in the Fajardo Xtra Consumer Mall in Fajardo Aug. 4 following a quiet breakdown period conducted for the 91,400-sq.-ft. unit over the past two weeks.

The discounter will follow up by opening a 110,580-sq.-ft. store in the Plaza del Norte Shopping Center in Arecibo in the fall, but it has run into problems with a 110,000-sq.-ft. unit previously announced for Mayaguez.

That proposed Wal-Mart was to go into the Mayaguez Mall. Woolworth, however, has invoked a clause in its lease to try and stop the discounter, and the developer, in turn, has filed a lawsuit opposing Woolworth's action.

Wal-Mart's plan to open its first Sam's Club on the island has run into zoning problems, which have, so far, stopped any construction on the proposed 130,848-sq.-ft. club in Caguas.

(Continued on page 28)

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Building an Empire in New York

ALBANY N.Y. — Wal-Mart plans to open 11 stores in New York state this year and at least five more in 1993, including four in the state's Capitol District during the next two years, as part of its mounting invasion of the Northeast.

Separately, the discounter plans to open about a dozen Sam's Clubs in the state as part of its membership warehouse chain's mushrooming expansion in the region.

Wal-Mart's push in the Empire State includes adjacent openings of discount stores and Sam's Clubs in a number of sites.

The diversified retailer plans to initially support its Northeast expansion from the 1 million-sq.-ft. distribution center in Clearfield, Pa., that will open in fall 1993. But long-range, Wal-Mart is considering building a DC in New York state that would be better positioned to serve the New York/New England market, sources said.

The likely New York site is a 60-acre tract that's part of the 300-acre Interchange Commerce Center in Harriman in Orange County at the junction of two major highways: Interstate 87 and State Route 17. Orange & Rockland Utilities, which owns the center, has reportedly held talks with Wal-Mart, but the utility has denied any contact with the retailer. While Wal-Mart said there weren't any plans for a DC in Orange County, other sources indicated that the discounter projects open-

(Continued on page 30)

Phar-Mor Opens No. 300; Denies Plans for IPO

***Phar-Mor president Michael Monus** (with scissor) leads ribbon-cutting for 300th store in Ashtabula, Ohio.* (DSN photo)

By Tony Lisanti

ASHTABULA, Ohio — Phar-Mor, which now calls itself the nation's biggest deep discount store chain, opened its 300th store here last week with more fanfare than at all of its previous 299 stores.

(Continued on page 28)

Special Supplement
Discount Store News
August 3, 1992

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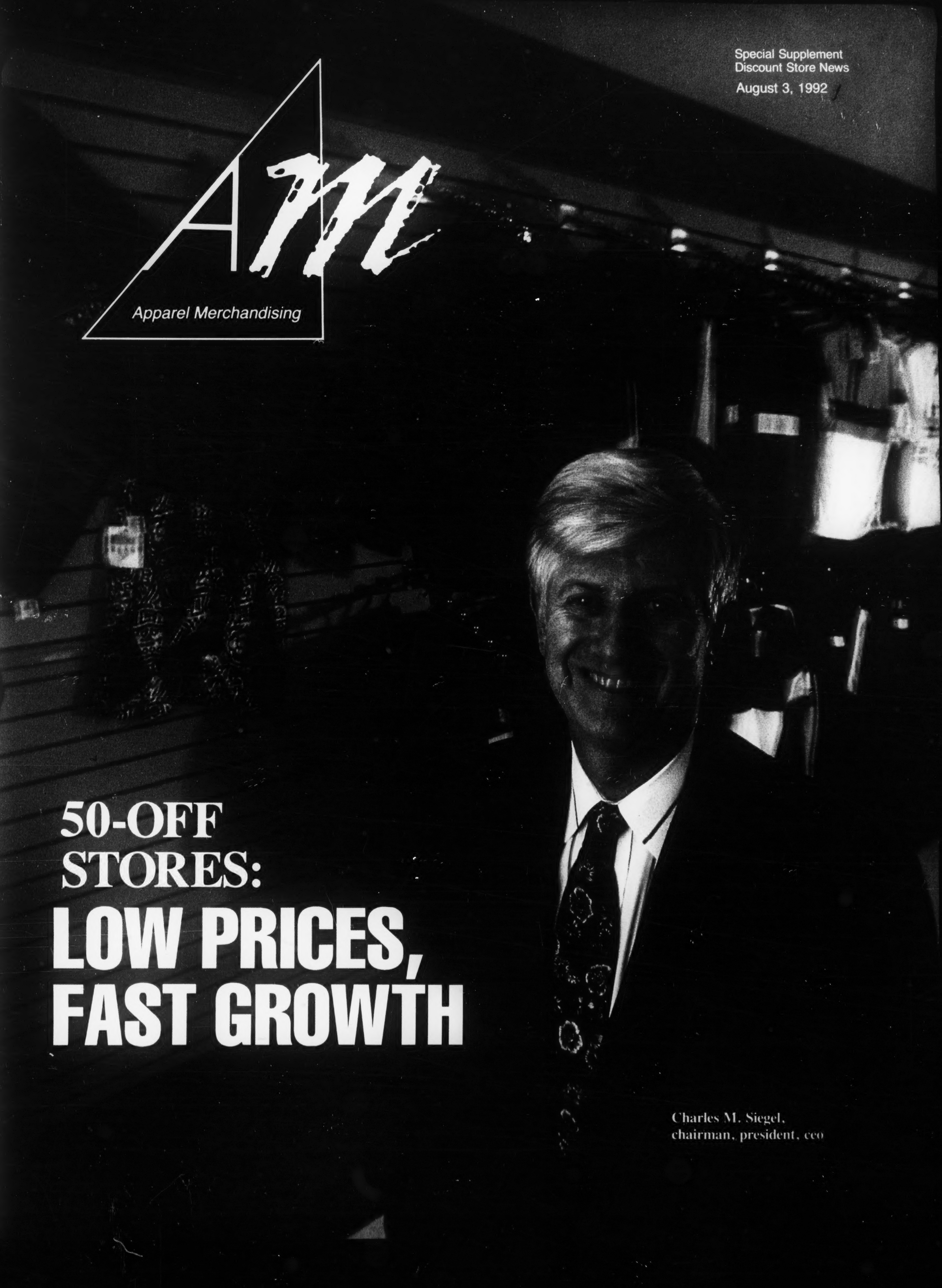

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Discounters lead

First quarter results for 1992 are in and discount stores are again the No. 1 outlet of choice for boys' and girls' fleece pants and tops, according to The NPD Group, Port Washington, N.Y.

While discounters take the top position in both fleece shirts and pants, first quarter sales of the girls' garments are showing significantly stronger gains at the mass merchant level, the report indicates. First quarter girls' sweatshirts at discount were up 13.7 percent over 1991 sales to $19.9 million, and sweatpants sales also rose, 16.9 percent, to $10.1 million in first quarter 1992. However, girls' sweatpants sales decreased at other retail levels. Price may be an issue in the category, with the garments functioning as generic casual bottoms.

Boys' sweatshirts were down 21.8 percent at discount to $35.8 million in first quarter from the prior year and sweatpants were down slightly, 6.8 percent, to $39.6 million. Perhaps the newer, more comfortable denim trousers are taking a portion of the boys' sweatpants business.

But other retailers saw increases in boys' fleece for the quarter. Specialty stores showed the largest increase in boys' sweatshirts, up 87 percent to $12.9 million in first quarter 1992 from $6.9 million in 1991. Although discounters still generate the most boys' sweatshirt sales, quarterly results show that shoppers may increasingly be choosing other retail tiers in which to buy boys' tops.

Possibly price is not what's moving these sweatshirts. The garments sold in department and specialty stores, for instance, may be attracting consumers because of their fashion appeal rather than a low ticket. This gives credence to the argument that sweatshirts may be replacing sweaters in boys' wardrobes. Total boys' sweatshirts for the quarter moved up 12.3 percent to $122.0 million.

In 1991, boys' fleece accounted for $1.2 billion in overall sales, compared to $1.1 billion for the prior year. The girls' fleece tops and bottoms accounted for $467.6 million in 1991, down from 1990's $474.5 million.

Overall, discounter sales changes were subtle from 1990 to 1991 in this category; girls' sweatpants increased by 5.6 percent; sweatshirts were down 6.7 percent.

In boys', discount sweatshirt sales for 1991 fell off 1.6 percent to $270.1 million. Sweatpants increased 22.3 percent.

Discounters may have to take a careful look at what's driving their boys' and girls' fleece business. While the mass merchants typically have been the consumer's choice for fleece purchases, the huge category has other retailers vying for their shopper's dollars. ◢

Boys' fleece

Where boys' sweatpants are purchased

Outlet	1991 Annual Sales ($ in millions)	1990 Annual Sales ($ in millions)	Percent Change
Discount stores	222.1	181.6	22.3
JCPenney, Sears and Montgomery Ward	72.8	67.6	7.7
Department stores	61.3	54.1	13.3
Off-price stores	29.8	22.7	31.3
Specialty stores	29.4	14.7	100.0
All other*	34.2	40.4	(15.3)
Total Outlets	449.6	381.1	18.0

Source: The NPD Group, Inc.

* Includes direct mail, factory outlets, warehouse clubs, food and drug stores.

( ) Denotes negative number

Where boys' sweatshirts are purchased

Outlet	1991 Annual Sales ($ in millions)	1990 Annual Sales ($ in millions)	Percent Change
Discount stores	270.1	274.6	(1.6)
Department stores	136.3	140.3	(2.9)
JCPenney, Sears and Montgomery Ward	112.7	141.2	(20.2)
Specialty stores	65.3	52.7	23.9
Off-price stores	41.2	49.2	(16.3)
All other*	109.3	102.4	6.7
Total Outlets	734.9	760.4	(3.3)

Source: The NPD Group, Inc.

* Includes direct mail, factory outlets, warehouse clubs, food and drug stores.

( ) Denotes negative number

Girls' fleece

Where girls' sweatpants are purchased

Outlet	1991 Annual Sales ($ in millions)	1990 Annual Sales ($ in millions)	Percent Change
Discount stores	61.8	58.5	5.6
Department stores	18.3	22.2	(17.6)
JCPenney, Sears and Montgomery Ward	10.7	14.0	(23.6)
Specialty stores	7.3	7.4	(1.4)
Off-price stores	5.6	6.8	(17.6)
All other*	10.9	13.5	(19.3)
Total Outlets	114.6	122.4	(6.4)

Source: The NPD Group, Inc.

* Includes direct mail, factory outlets, warehouse clubs, food and drug stores.

( ) Denotes negative number

Where girls' sweatshirts are purchased

Outlet	1991 Annual Sales ($ in millions)	1990 Annual Sales ($ in millions)	Percent Change
Discount stores	120.0	128.6	(6.7)
Department stores	63.7	60.0	6.2
Specialty stores	61.6	44.8	37.5
JCPenney, Sears and Montgomery Ward	35.3	41.4	(14.7)
Off-price stores	14.5	19.6	(26.0)
All other*	57.9	57.7	0.3
Total Outlets	353.0	352.1	2.6

Source: The NPD Group, Inc.

* Includes direct mail, factory outlets, warehouse clubs, food and drug stores.

( ) Denotes negative number

in fleece sales

First Quarter fleece

Where girls' sweatshirts are purchased

Outlet	1992 First Qtr. Sales ($in millions)	1991 First Qtr. Sales ($in millions)	Percent Change
Discount stores	19.9	17.5	13.7
Specialty stores	13.8	9.7	42.3
Department stores	11.8	9.1	29.7
JCPenney, Sears and Montgomery Ward	9.8	5.6	(75.0)
Off-price stores	4.1	1.8	127.8
All other*	10.8	7.2	50.0
Total Outlets	70.2	50.9	37.9

Where girls' sweatpants are purchased

Outlet	1992 First Qtr. Sales ($in millions)	1991 First Qtr. Sales ($in millions)	Percent Change
Discount stores	10.1	8.7	16.9
Department stores	2.1	3.8	(44.7)
JCPenney, Sears and Montgomery Ward	1.7	2.0	(15.0)
Specialty stores	1.7	1.3	(30.8)
Off-price stores	0.9	1.4	(35.8)
All other*	1.9	2.3	(17.4)
Total Outlets	18.4	19.5	(5.6)

Where boys' sweatshirts are purchased

Outlet	1992 First Qtr. Sales ($in millions)	1991 First Qtr. Sales ($in millions)	Percent Change
Discount stores	35.8	45.8	(21.8)
Department stores	26.6	20.6	29.1
JCPenney, Sears and Montgomery Ward	19.7	14.4	36.8
Specialty stores	12.9	6.9	87.0
Off-price stores	8.8	8.1	8.6
All other*	18.2	12.8	42.2
Total Outlets	122.0	108.6	12.3

Where boys' sweatpants are purchased

Outlet	1992 First Qtr. Sales ($in millions)	1991 First Qtr. Sales ($in millions)	Percent Change
Discount stores	39.6	42.5	(6.8)
JCPenney, Sears and Montgomery Ward	13.6	10.4	30.8
Department stores	8.8	14.8	(40.5)
Off-price stores	5.7	7.6	(25.0)
Specialty stores	3.8	6.7	(43.3)
All other*	4.1	3.0	36.7
Total Outlets	75.6	85.0	(11.1)

Source: The NPD Group, Inc.

* Includes direct mail, factory outlets, warehouse clubs, food and drug stores.

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